Vhat's Ahead for the Market—NOW

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

PTEMBER 27, 1958 85 CENTS

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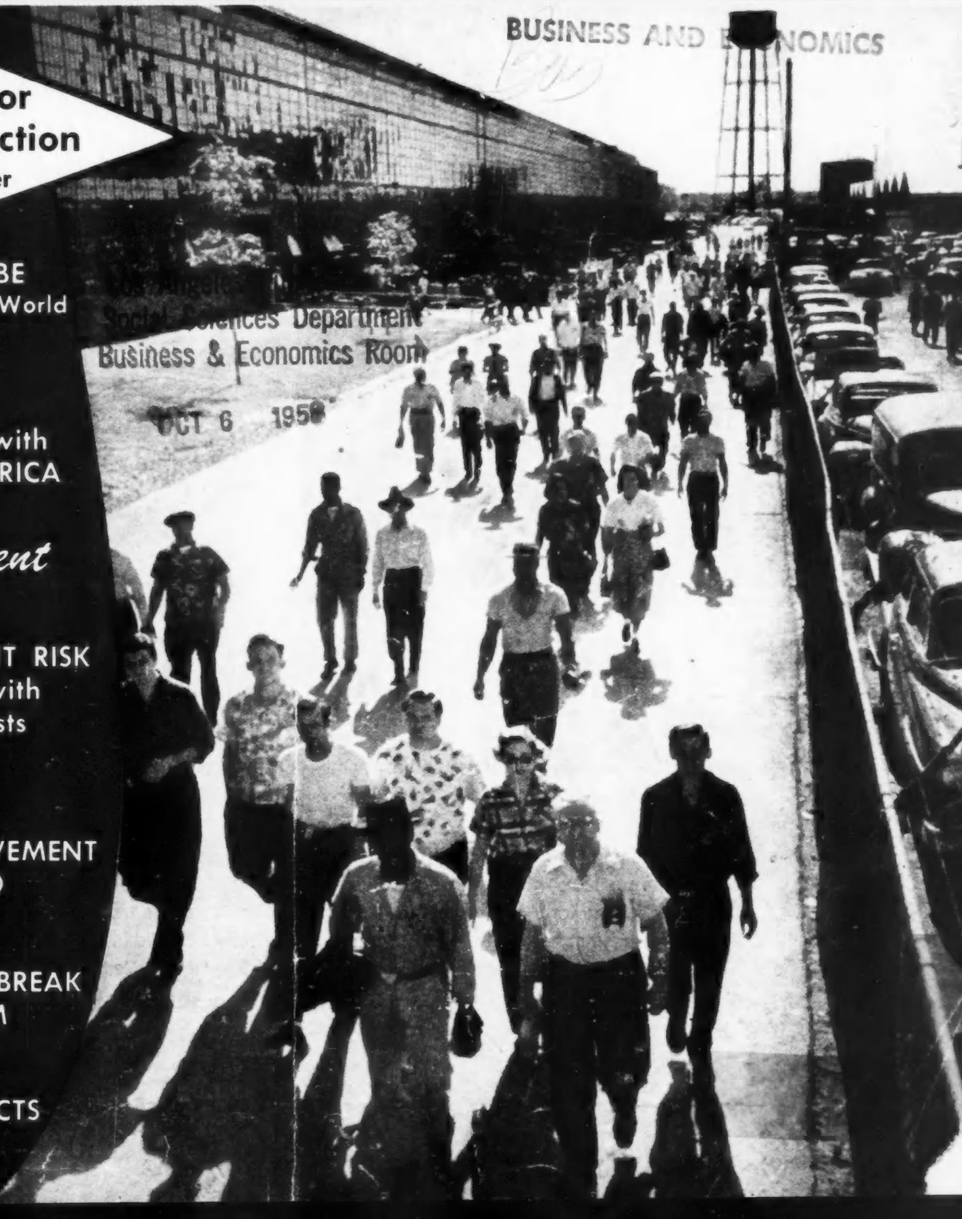

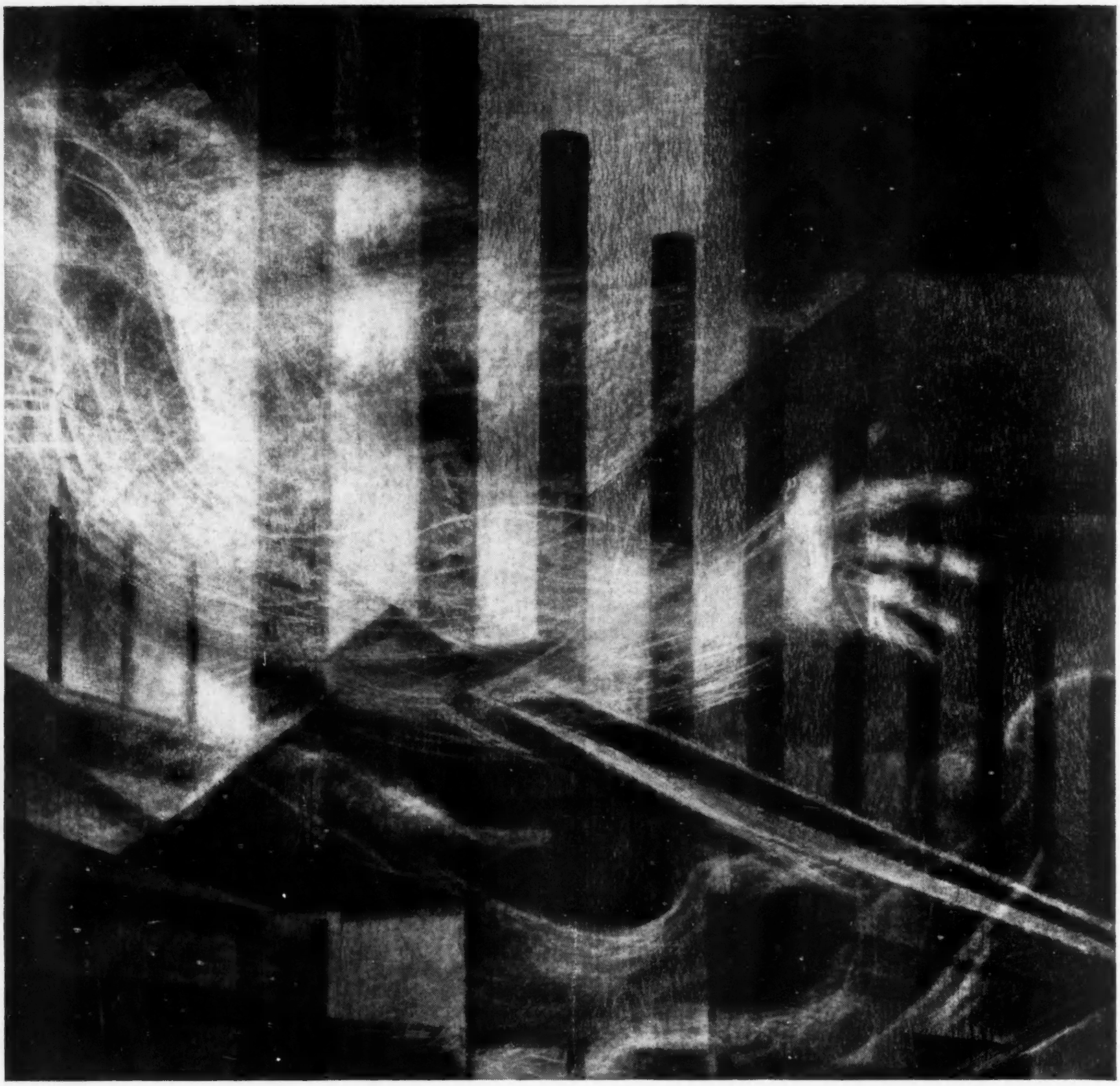

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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

BUSINESSMEN MUST UNITE: . . . Private enterprise is losing influence at a shocking rate of speed and in final analysis has itself to blame: It is employing pea-shooters in a war against the modern artillery of an opposition which is putting money, know-how, skilled personnel and, most of all, united effort into what is taking shape as economic Armageddon.

Business speaks today through a Babel of manifestly ineffectual voices. Each seems constricted to narrowed issues or carefully delineated segments of the economy. There is no funnel through which the broad aims and requirements of business can be poured out in a manner which can be understood, and cannot be miscalculated. One must be created! Without aspersing for one moment the work of such existing agencies as the U. S. Chamber of Commerce, the National Association of Manufacturers, The Association of American Railroads, and like entities, they are not set up to be, and therefore are not, a match for the AFL-CIO in the propaganda campaign more politely known as "educational work." The basic weakness is that the job is left to the professionals in Washington. There are no evidences of concerted effort to create an actively operating force behind the lines where, military strategists will tell you, wars are won.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

There was a time when a businessman could write a letter, or send his lawyer or public relations man to Washington to convey his views on pending problems, then sit back with reasonable expectancy of favorable results. That day has passed. Now he must stand up and be counted in a solid phalanx. How many businessmen know, or ever met, their Senators and Representatives? How many labor bosses, down to the local level, are on a first-name basis with the lawmakers? The key to the problems of private enterprise may be found in the answer to these questions.

It would be understandable if the need for a united front for business was not recognized. That isn't the case at all. Every convention of businessmen hears clarion calls to enlist in the cause of self-preservation. And, like the Nebbishes in the novelty shops who consider the job done when they come to an agreement, "We must get things organized — next week," the bold plan dies a'borning. When one segment of industry finds its rights being crushed by bureaucratic ukase it is left to work out its own salvation. On broad general principles, at least, organized labor fights as a unit. Not so, however, with business. For example, it is commonly supposed that the right to speak out, to

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907—*"Over Fifty-one Years of Service"*—1958

write, to petition Congress are safe from challenge; that these are not mere abstractions, but guarantees of the very first Amendment to the Constitution. Are they? Let's examine the question a little deeper because if these basic rights are taken away, or diminished, private enterprise vanishes in direct proportion.

Take the crisis of public power development and distribution that overhangs the tax-paying private utility industry today. To remain in profitable business, the privately-owned companies instituted an educational campaign, advertising the desirable qualities of their system, the dangers and inequities of the publicly-owned facilities. The Internal Revenue Service under the whip of Senator Estes Kefauver of Tennessee, ruled that this expense is not an "ordinary cost of doing business," therefore that it must come out of profits. Then The Federal Power Commission pounced on the utilities with an order that such costs cannot be computed, with other expenses, in arriving at a rate-making base.

IRS and FPC are examining pleas by industry to reverse these holdings. But unlike labor and other pressure groups which swing into action when any segment is threatened, business is sitting back and letting the utilities fight this one alone. This supplies a classic example of the need for organization, common goals, united effort, and for businessmen to bestir themselves from conversational politics to active participation.

The history of labor-management law bar against an employer presenting his side of the story is also well known. Fortunately there is some improvement in this area. But back in the Wagner Act days, management faced severe penalties for speaking out against any feature of the jug-handled pacts of that era. When the pendulum swung in the other direction, the gag was removed from the employer. While he must be careful not to offend, or to hint tactics of censure or sanction of any employee, the man who signs the paycheck may now exercise his constitutional right of free speech, but only to the extent of explaining his position on contract demands. It took a Federal court case to restore this civil right!

There is in process of formal organization today, a group known as "Americans for Constitutional Action." It, or something like it, might be the answer to management's needs. Heading the organization is Admiral Ben Moreel (Ret.) Among the other officers are T. Jefferson Coolidge of United Fruit, and General Robert E. Wood, formerly of Sears Roebuck. ACA is dedicated to the return and preservation of constitutional rights of free enterprise. Organized on a national scale, it is calculated to bring together the civic and vocal energies of all who believe that this country has grown and prospered under private enterprise and who prefer that system, and to direct its fire against alien concepts of government or business operation. It will support, regardless of party label, causes and candidates which are consistent with these aims. With more particularity, the stated goals include protection of the principle of sound money, effective economy, taxation for revenue only, and a balanced budget; free enterprise and private ownership with rewards of the merit system; an effective two-party system.

The U. S. Chamber of Commerce is stepping up its drive for more active political interest. Said President William A. McDonnell: "We must roll up our sleeves and get to work at the precinct and ward levels where political decisions are made and office holders chosen. We must pay more attention to those who will be elected to Congress and to state and municipal legislative bodies rather than concentrating all of our efforts in trying to convince people who already are elected and already are committed to a political philosophy hostile to business. It will take long-term efforts to develop the full potential of such a program."

Gulf Oil Corporation has become one of the first of the big companies to pick up the challenge of a labor dictatorship in the United States by taking steps to meet the peril headon. Organized labor's influence in the legislative halls can be met only by matching forces and, says Gulf's management, "there is no place in the United States where such a force can be generated except among the corporations that make up American business. Such a course requires a program and a proper program needs long and careful planning." As the nucleus of what is projected as a comprehensive citizenship endeavor, Gulf is circularizing its 161,000 shareholders, employees and dealers.

This is not something that "must be organized — next week." It will get underway at once with a research project involving behavior of elected officials — their attendance record at important sessions, how they voted on significant issues, what they have said in speeches, committee meetings.

The job ahead is not a simple one. More than 175 members of the House of Representatives reported labor union assistance, money and services, in the last campaign. The list of aids is long: funds, headquarters, clerical and other help, radio and TV time, advertising, publicity in the vast labor press, doorbell ringers, telephone brigades, other ways.

In a ringing rallying cry, Gulf's message warns: "If our free, competitive institutions are to be preserved from destruction by the unholy combination of predatory gangsterism and crackpot socialism that is thriving and expanding under labor's congressional benevolence, then business has no choice. It must do likewise or throw in the towel."

THE PASSING OF THE RAILS — HOW SOON? — Washington should be convinced by now that the railroad as a common carrier of passengers is headed out and that its demise could be hastened by official inaction. Inquiries have turned up mountainous, undisputed evidence that only heroic measures can save and vitalize this essential element in the life of the Nation. When it is realized that the directly competing systems — air and highway transport — are subsidized to the teeth with money and right-of-way maintenance, it is not difficult to appreciate that the rails cannot indefinitely go it alone, trying to pay their own way in the face of restrictive and restraining attitudes of public regulation. The alternative is government operation. To read the record of our experience with that venture in World War 1 is to rule it out. Government operation was costly and it was inefficient. It saddled the taxpayers with additional high taxes. It planted the seed of labor-management strife. In his book, "Labor Union Mon-

(Please turn to page 762)

As I See It!

By John H. Lind

GOVERNMENT EDGES DEEPER INTO OIL BUSINESS —A NEW PHASE IN THE BATTLE OVER OIL IMPORTS

IT IS NOW fifteen months since President Eisenhower instituted his "voluntary" program to restrict the importation of crude oil into the United States. At the time it was introduced the program made a certain amount of sense. The domestic oil industry was really suffering under the combined effects of the general business recession and the cut-back in petroleum production following the end of the Suez crisis. At the same time, the level of oil imports kept rising (though mainly because of the additional needs of the West Coast which has only recently turned from an oil surplus to an oil deficit area).

Thus, some sort of temporary action to relieve the pressure on the domestic oil producers was clearly in order. The President's program under which each importer was asked to comply voluntarily with an assigned quota seemed well designed for just this purpose. Being voluntary and addressing itself only to the companies presently importing oil, it had all the earmarks of a temporary relief program which could be discarded after it had served its purpose.

However, it is almost axiomatic in modern political science that any state intervention in private business is of a progressive and cumulative nature. Once started, retreat to a *status quo ante* is almost impossible. On the contrary, further intervention usually seems inevitable.

Everybody Gets Into the Act

The development of the Oil Imports Restriction Program since July 1957 is a perfect case in point. As soon as the government assigned quotas to established importers, literally hundreds of other oil refiners who had never imported one drop of oil felt compelled to ask for import licenses, too. Many of these refiners are not even in a position to refine foreign oil in their plants, being located in regions to which it can not be economically transported. It is safe to say that if the government had never started a licensing procedure a great many of these newcomers would never have thought of becoming importers.

Thus, with hundreds of new applications pending, the government found itself deeper in the oil business at the beginning of 1958 than it had ever wanted to be. The next logical step was, of course, a tightening up of the "voluntary" features of the original program. Under a new order of last March which granted quotas to a number of newcomers, all government agencies were instructed not to purchase oil products from any company which was in violation of the "voluntary" imports restrictions. Since the U.S. government's oil needs run into billions of dollars annually, this was quite a stick with which to bring any recalcitrant concerns into line. Incidentally, it is now being challenged in the courts by a small importer.

The latest, but hardly the last, step in the government's intervention in oil imports came last week. Since the flood of new import applications could not be stemmed by any of the previous measures, a new plan was proposed. Under it, every oil refiner in America would be able to import a quantity of oil equal to a specific share of his refinery output. The new plan would start next January but during its first year of operation it would be transitional in nature, leading from the present program into the new one. The latter is to start in full force on January 1st, 1960 with a crude oil import allocation equal to 11 percent of refinery runs available to any refiner who applies for it. The program is now undergoing industry examination but its final form is unlikely to differ very much from that announced last week.

So far, industry reaction has been only sporadic. However, the Texas Company, Gulf Oil, Atlantic Refining and Tidewater Oil have already voiced strong opposition to the plan. On the other hand Standard Oil of Indiana, Sunray Oil and *(Please turn to p. 764)*

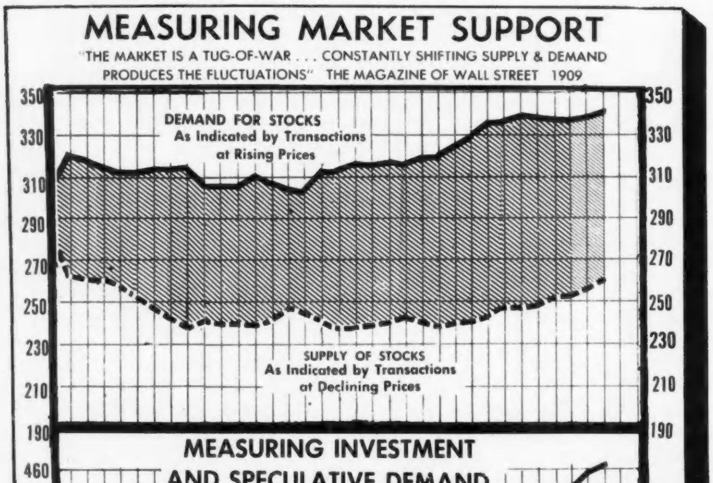
What's Ahead For The Market - NOW

Valuations in the stock market are generally high. They are verging on a reckless extreme in many cases where future possibilities are discounted three to five or more years ahead. No profit-dividend boom is in sight. Neither is any general inflation of commodity prices. A market shakedown is due and could be fairly near.

By A. T. MILLER

The stock market's advance was extended in active trading over the past fortnight, with upward tendencies renewed in the final trading session after a couple of days of wavering.

The "big news" was made in the forepart of last week when a two-day surge took the Dow industrial average to a new all-time closing high of 526.57, surpassing the triple tops of 521.05, 520.95 and 520.77 recorded, respectively in April and August, 1956, and July, 1957.



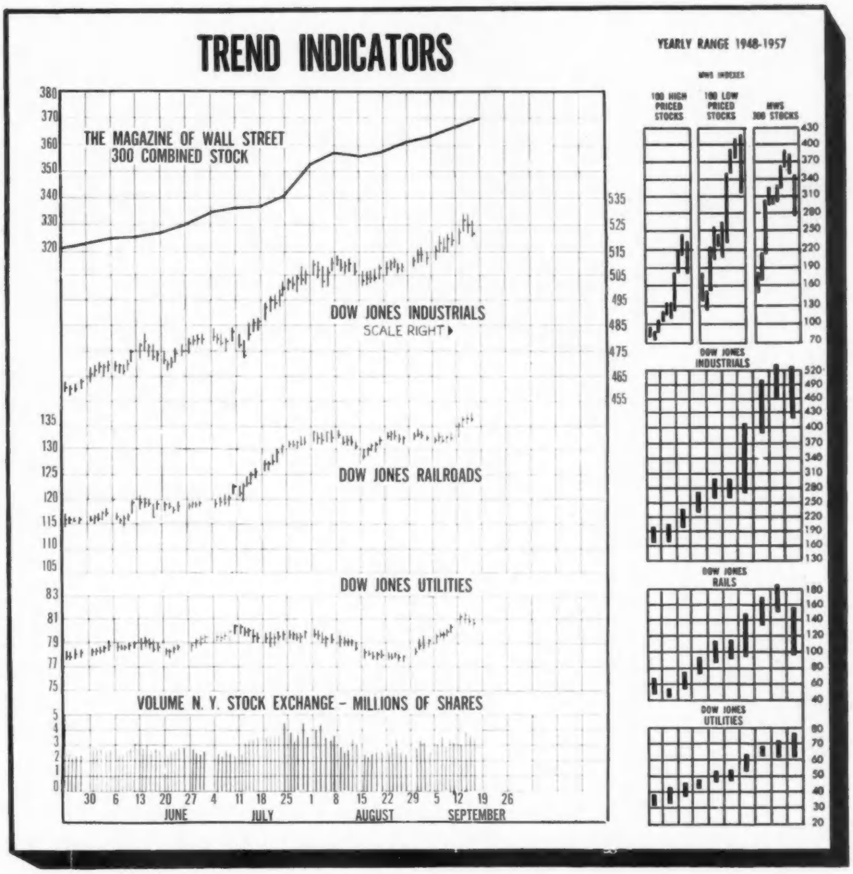
Making the sunny side of the street seem more so, rails pushed through their early-August recovery level to a new 1958 high; and the previously stymied utility average rose enough to better its July 11 bull-market peak by a sizable fraction. Thus, the surface indications raised hopes for an exciting further market rise into autumn. That might be possible, but it is also possible that a top area and a sizable reaction are fairly near. After 107 points up for the Dow since last October, it now takes 20 points to add even 3.8% to it. Near-term market action will bear watching.

Reasons For Caution

There are technical and fundamental grounds for caution at this point. Looking at technical considerations, recent performance of the market has not been as strong as that of the industrial average. There have been sub-surface indications of reduced vigor such as have often preceded bull-market tops or sizable reactions. One is trading volume. Its daily peak so far was seen early in August at 4,440,000 shares. At the higher market level reached early last week, volume was 10% lower at 3,940,000 shares.

Another and perhaps more significant indication of the real strength of the market can be seen in the relative number of individual stocks showing ability to reach new highs. In the initial trading session last week, with the industrial average up 3.97 points to a new all-time high, 134 stocks attained new highs for 1958 or longer. In the Tuesday session, on a further rise of 3.17 points, the number was 172. In several sessions during late July and early August, the number of new highs ranged between 201 and 238. On a daily average, new highs ran to about 111

stocks over the last fortnight, against 162 in the last week of July and the first week of August. On this perspective, recent demand was less aggressive than it seemed.



A brief comment on the "penetration" of the 1956-1957 triple tops by the industrial average may be appropriate, in view of some evident confusion of thought about it. Those "old highs" were a historic fact — without technical or other bearing on the present situation. Every market cycle is an entirely new story, written under the circumstances of the times, with only the intermediate highs and lows in a given cycle having any actual use as technical reference points.

For instance, for a long period of time the "old highs" were those made by the industrial and rail averages in 1929. They were not bettered by the industrial list until November, 1952—after an interval of some 23 years. And the 1929 top has not yet been remotely approached by the rail average. But in the period since mid-1932 — without counting the possibly incomplete cycle begun from the late-1957 lows — we have had six bull markets and six bear markets of widely varying proportions.

Turning to fundamentals, it is obvious that the market has run far ahead of the recovery in business activity and corporate earnings, on which dividends depend, and that it has done so to a degree unprecedented in any early stage of business revival. It is equally obvious that it has run far ahead of anticipated inflation. Judged by the traditional yardsticks of valuation, stock prices are generally at high and excessive levels.

The reasons why this is so are also obvious. They boil down to investment unwillingness to sell because of the capital gains tax, and hope of more profit; to a considerable degree of speculation, whether on margin or not; to the greatly increased unpopularity of bond investment, regardless of comparative current-yield factors; and to a new kind of "New Era" faith in long-term potentials.

The awakening to disappointment, and a reversion to reality, may come gradually over a period of time. But surely the process of discounting the future ever farther ahead must be checked or interrupted at some point. That might start soon, or a few weeks hence, with a market shakedown.

As regards business: more than half of the entire prior decline was made up by the index of industrial production in four months through August. At that rate, a full recovery would come in eight months through December, whereas it took 18 months in 1949-1950 and 22 months in 1954-1955. We look for a slowdown in the pace, and for no great new boom for some time to come.

As regards earnings: a fair recovery is in sight. A full recovery in less than another 12 months or more is questionable — yet the market has already allowed for it.

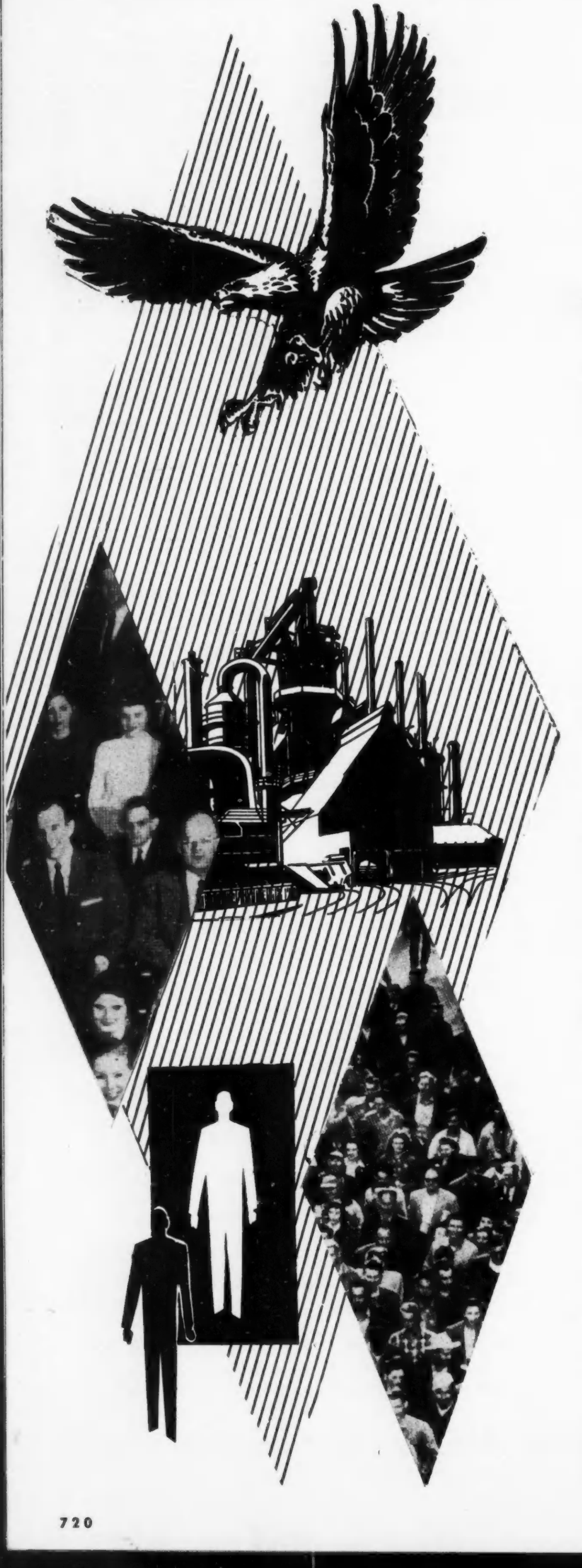
The Inflation Psychology

Exaggerated, cocksure inflation psychology has developed in the stock market—nowhere else. There is no "flight from the dollar" by housewives or business purchasing agents. Materials and goods are in generally ample to excessive supply. On average, prices of industrial and agricultural materials are under pressure here and on a world-wide basis.

As regards monetary inflation: The Federal Reserve is clearly determined to fight it vigorously by credit controls. The Treasury might and should fight it by financing part of the deficit via long-term bonds.

As proven by recent corporate flotations, bonds can be readily marketed — at the right price.

At least on the part of various institutional funds, a partial shift from equities back to bonds is by no means inconceivable. We recommend caution on new buying at this time, and careful discrimination in portfolio adjustments. — Monday, September 22.



Hoffa - Labor - and the Coming Election

►What the unholy combination of predatory gangsterism and crackpot socialism, thriving and expanding under labor's Congressional benevolence, can do to our economy — to the free enterprise system — to our form of government

—Editor

by James J. Butler

► The November election this year might well be one of the most momentous in the history of the United States. It presents to the electorate a fateful choice: Shall a small band of ruthless, lawless individuals masquerading as labor leaders be allowed to take the country down the path to economic destruction, or will the people rise to demand respect for constitutional processes?

This by no means overstates the crisis. Pause for a moment to ponder the case of Jimmy Hoffa, principal architect of a planned super-government of labor racketeers. With the confident defiance of an Adolf Hitler, Hoffa has drawn his own "Mein Kampf": control of every mode of transportation by his closely-knit gang. Here would be a vicious network of power that could, overnight, paralyze business and industry, including defense, and bend the knee of the citizenry to its demands however outrageous they might be.

If no trucks moves over the highways, goods stack up on factory loading platforms and in the holds of water carriers. Raw materials do not move to the mill and the finished products, if any, stay put. Essential food supplies spoil at the point of processing. This is total seige! Yet it describes the power that Hoffa is building today in a process of expansion and getting away with it because Congress refuses to halt him. Public opinion apparently hasn't been sufficiently aroused. Capitol Hill procrastinates and quibbles. Meanwhile Hoffa is working on an alliance that would bring to the side of his powerful teamsters' union, the maritime unions, rail, and air carrier unions.

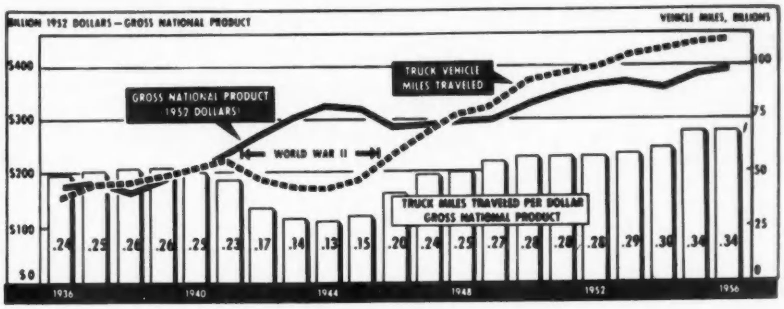
Is it not pertinent to put this question bluntly to office holders, business associations, and "friends of labor": Has your oath of public office, or your oath of citizenship, been prostituted (by lack of moral courage, inattention, or carefully contrived propa-

ganda) to promotion of the greater financial and political power of a handful of labor racketeers who have turned crime to their advantage and mocked the fundamentals of democratic government?

Surrender without contest seems to be the mood of the day. Abject retreat was the keynote in the recent session of Congress in which the Mc Clellan Committee exposed the whole sordid story, and then the solons did nothing to meet the challenge.

Whether effectual labor laws can be enacted by the Congress which convenes in January hinges upon several factors not the least of which will be the fate of right-to-work referenda which are on the ballot in six states. Rejection of the "union shop" would give moral support to backers of new statutory weapons to fight corruption and check economic sapping of free enterprise. Firming labor's stranglehold would contribute toward another defeat of legislation to restore management-labor balance.

Motor Truck Use Follows Business Activity Closely



	Gross National Product in 1952 Dollars (000,000,000)	Truck Miles Traveled (000,000,000)	Truck Miles per Dollar		Gross National Product in 1952 Dollars (000,000,000)	Truck Miles Traveled (000,000,000)	Truck Miles per Dollar
1937	$177.8	44.2	.25	1947	$280.4	66.1	.24
1938	169.9	44.5	.26	1948	290.3	73.9	.25
1939	184.7	47.2	.26	1949	291.3	77.7	.27
1940	202.3	49.9	.25	1950	316.0	90.6	.28
1941	233.7	54.9	.23	1951	337.8	94.8	.28
1942	262.4	45.7	.17	1952	348.0	99.1	.28
1943	294.8	41.6	.14	1953	360.1	104.6	.29
1944	317.4	41.7	.13	1954	354.0	105.8	.30
1945	310.3	45.9	.15	1955	378.7	111.4	.34
1946	280.0	56.2	.20	1956	390.0	115.0	.34

SOURCE: Basic data from Department of Commerce and Bureau of Public Roads.

THE ALL-PURPOSE USE OF TRUCKS

—Truck ton-miles hauled are 4.5 times 1939 total

—Truck transportation employs 7.2 million

—24,400 cities receive and deliver all mail by motor truck

—Trucks haul 48 per cent of canned fruits and vegetables in the U.S.

—61 per cent of Florida vegetables shipped outside by truck

—34 per cent of all fishery products in U.S. hauled by truck

—Trucks deliver 83 per cent of salt-water fish products in New York City

—68 per cent of frozen foods hauled by motor trucks

—85 per cent of motor vehicles shipped from factories by highway

—18 of 62 major markets receive all hogs by truck

—82 per cent of livestock receipts of stockyards arrive by truck

—31.6 per cent of enrolled pupils travel by school bus

—65 per cent of all public passenger transportation moves by motor coach

—Truck sales in 1941 totaled 640,697; in 1956, 894,366.

(Data, 1956)

Strange Bedfellows in Opposition

It would be error, however, to equate right-to-work victory with promise of meaningful Federal enactments. There are other hurdles. The fate of the Kennedy-Ives Bill in this year's session demonstrated that powerful, articulate, and contrasting interests either actively or passively block the path. For reasons which have mere shadings of difference, much of the labor movement (United Mine Workers for example), powerful voices of management (the U.S. Chamber of Commerce, for one), the Administration (Labor Secretary James P. Mitchell), and the hard core of labor-supported democratic voting strength, are arrayed against the senate-passed bill. It was imperfect only because it lacked breadth. But the discouraging aspect is that no major segment of national interest seemed willing to make a start!

This formidable opposition is likely to be reinforced by November election victors pledged to the hilt to do the bidding of the unions. A voice-less rank and file of union members with no organized national backing at this point hardly serves to rank the contest as another "battle of the century".

No Question Of Support For Labor

The mere mention of "labor legislation" arouses controversy. The impression has been nurtured by some labor bosses that anything Congress does in this field is certain to redound to the disadvantage of unions. Everything is suspect. We are proud of our consistent record of support for organized labor as represented in the policies and practices of Gompers, Green, Murray, and Meany to name a few; we are equally proud of our stand against the Reuthers and the Hoffas of a later-day trade union

movement dedicated to the financial glory of ruthless labor overlords hypocritically taking credit for betterments in wages and working conditions of workingmen (organized and otherwise), and motivated by the maxim that "the end justifies the means".

We are profoundly disturbed by the apparent lack of determined leadership in stamping out vice which we had come to expect of such eminent personages as Labor Secretary James P. Mitchell. When the Kennedy-Ives Bill was before the House, Rep. Walter Judd of Minnesota, quoted Mitchell as opposed to its enactment in the form presented. Mitchell said the quotation was authorized. He explained later that Federal law (the Kennedy-Ives Bill) does not directly correct the evils of assault, arson, murder, theft, destruction of property, intimidation. "These," said the Cabinet member, "are prohibited by local law and can be stopped by effective local law. We did not need a Federal law to stop a man like Johnny Dio. The things he was guilty of are punishable by local law."

Laws Inadequate

The crimes of Al Capone and Frank Costello, among others, likewise are prohibited by local law —yet it became necessary to invoke Federal income tax law to put these gentlemen out of circulation. Automobile theft is a local offense, but the Federal law (Dyer Act) is the principal deterrent; the local moral code has been ineffective as a preventive of vice on the grand scale and Congress found it necessary to enact the Mann Act. Dope peddling would be an even more rampant hazard were it not for use of a Federal statute makes it a crime to possess narcotics on which Federal tax has not been paid. Federal and local law working together, are effective partners in curbing crime.

Yet, Secretary Mitchell declaims: "The mugging and the goon-squads do not need a new Federal law for correction. They can be stopped under existing laws. The failure to get a labor reform bill this year has not thrown the brakes on the fight to drive the hoodlums out of labor. If anything, it has increased the need for community action. ... The labor movement is leading the way; the community should follow."

Urgent Legislation

Acknowledging with full credit the job that is being done locally, and by some unions, it may be interesting to review some of the reforms which might be law today had not this inexplicable combination of opponents blocked the way: Prohibition against loans by employer, or union, in excess of $1,500 annually, to any union officer; requirement that unions holding trusteeships over locals to file semi-annual reports on conditions and operation of the trusteeship; prohibition against transfer of funds from a local under trusteeship to the parent union, and ban against manipulation of the former's votes for national delegates; limit of 18 months on trusteeships, with Labor Secretary empowered to enjoin violation of this rule; making it a Federal crime to falsify union records, or to embezzle from the union; requiring election of union international officers at least each four years and each three years for local officers; giving members the right to remove officers for cause, after hearing, by majority vote; authorizing the Government to bring suit to set aside fraudulent election of union officers; barring felons from holding union office while their right to vote is barred; setting up a commission on ethics; making bribery of a union (or its acceptance) a crime; prohibiting picketing as a means of extortion; banning improper truck unloading fees, and several others.

Land Of The Free And Home Of The Brave?

That seems too much to toss away on the excuse that the bill "didn't go far enough" or that a better measure may be enacted next year. Yet that is substantially the position taken by the U.S. Chamber of Commerce. The Chamber sent its labor-management experts to Capital Hill to testify on behalf of many of the controls written into the Kennedy-Ives Bill. But when it came off the Senate floor with less than asked, the Chamber campaigned to have action deferred until next year.

John L. Lewis, United Mine Workers Chief, trumpeted the charge "anti-labor bill", and labeled it "Peek-Poke-and-Pry". His bill of particulars against the measure included: Bad legislation; it would have restricted and hogtied free labor unions; it gave nothing to organized labor; it would not accomplish its intended purpose; it was purely political; it isn't needed; it would add woes to organized labor, already overburdened with government restrictions.

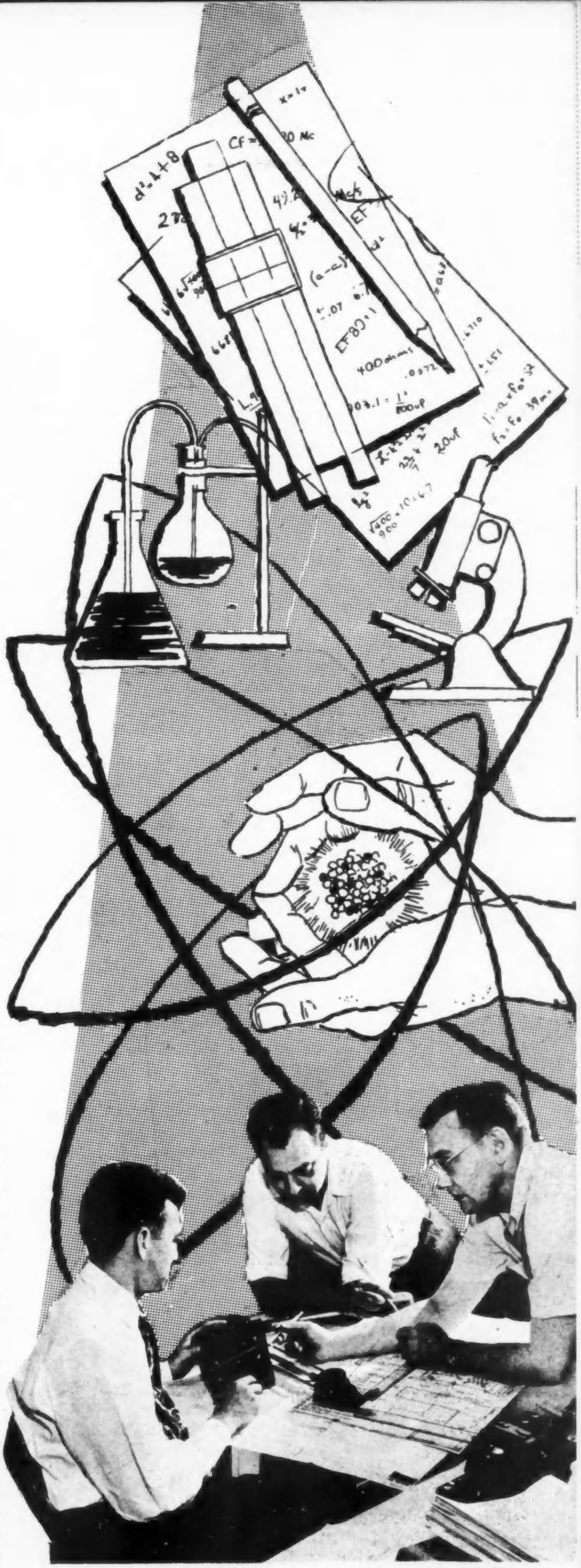
Then Lewis summarized: "We opposed it because it would have given the Federal government the power to rule or ruin unions. It would have given the government virtual state control, such as the communist governments have, over union finances, union discipline, union elections and the candidates for union offices — from international union offices to local union leaders. It would have given Federal bureaucrats license to poke, peek and pry into all of the af- *(Please turn to page 757)*

Out of the Test Tube
- Creative Minds are Building a New World

►A story of the fabulous developments in new products that will feed — clothe — and supply the fuel necessary for all mankind

►Companies that are making the great advances in these fields today

By Harold B. Samuels



◆ Probably man's most valuable asset is his imagination, but it has been just a few short years since he acquired the tools to convert his dreams into realities that other ages would have considered utopian. Only a century ago trips to the moon and submerged cruises under the polar ice were merely the adventurous imaginings of Jules Verne. Today, in this most creative of all ages they are as real as antibiotics, electronics, wonder metals, nuclear fission and the hundreds of other "miracles" that have become part and parcel of our daily existence.

But if this is a creative age, it is also a tense and warlike one so that the headline-making innovations which daily flow from our national laboratories are usually associated with weaponry, either offensive or defensive. Lost in the shuffle, therefore, are the scores of wondrous developments which are the building blocks of new industries that will most likely affect and enrich our lives far more than all of the defense technology combined. This, although many of the scientific and mechanical achievements must be credited to the costly research in the fields of new defense weaponry.

As a simple but vital illustration consider the miracle of "milk" made from vegetable oils which will shortly be available for the two-thirds of mankind living in areas where milk is a scarce or totally absent commodity. "Modified recombined milk", which has recently been developed by a leading dairy research foundation from coconut and cottonseed oils has been proved to have greater nutritional value than real milk. What is perhaps more important, it will probably be cheap enough to produce, so that even the most poverty-stricken nations of the world will be able to afford widespread use of the new product. Moreover, in countries

such as India, where religious scruples forbid the use of real milk, the health benefits of synthetic milk are obvious.

Even for those who insist on giving a national defense interpretation to most scientific achievement, the new milk fits the bill. For if by some unfortunate chance the continual testing of nuclear weapons should actually contaminate our natural milk supply with Strontium 90, the American dairy industry will have a ready substitute at its disposal to help us weather the storm.

New Wine in Old Bottles

One of the most interesting aspects of this amazing age is the surprising number of new uses we find for old products — and occasionally for virtually discarded ones. Probably the most cogent example is the rebirth of ceramics for use in missiles, but there are others. Concrete, for instance, is a fairly prosaic material but new and revolutionary methods of pre-stressing it have opened up vast new vistas for use in the construction industry. As a result, today bridges are being constructed of concrete without the use of steel supports; oil and gas storage tanks are being made of concrete; and in fact entire buildings, roofs or stadia are being erected without, or with only limited use of the conventional steel framing.

Examples of the practical advantages of pre-stressed concrete abound. A stadium, just completed in Caracas, Venezuela has a grandstand roof of the material that is only three inches thick, yet extends out 90 feet from its supporting pillars, thus leaving no posts to obstruct the view of spectators. Airfield runways can be laid down in a fraction of the time it would take to lay a steel bed; and even telephone poles that will stand identifinitely are being erected.

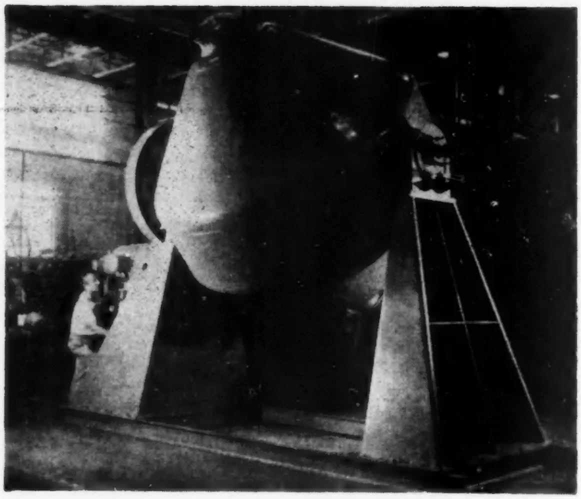
Aside from its new uses, the history of pre-stressing is fascinating because it illustrates so well the interplay and imagination that exists between seemingly unrelated fields. Thus the idea for pre-stressing concrete, which is proving a bonanza to the cement and construction industries, stems from the principle of placing a pre-stressed metal band around beer barrels to keep them from leaking and air proof. But of even greater significance is the fact that the idea of pre-stressing has now been applied to ceramics so that soon aircraft wings, auto bodies and a host of other products may be fabricated from this revivified material. It is still to early to anticipate profitability from this new use of ceramics, but the long range potential for such companies as Corning Glass Works, Owens-Illinois Glass and a host of other companies is readily apparent.

As an adjunct to the concrete field, it is interesting to note that titanium oxide, the sister product of the miracle metal, is finding widespread use as a curing agent for concrete, as well as a means of making paper more opaque. The demand for this new chemical is growing so rapidly that National Lead, leader in the field is constantly expanding its capacity, while du Pont and Glidden are rushing into the field to fill the rising demand at home and abroad.

Chain Reaction Progress

The beer barrel — to pre-stressed concrete — to ceramic wings for airplanes just described, is an excellent illustration of the chain reaction of scientific and technological development that is so rapidly accelerating our physical and economic well being. On another level, the extraordinary recent growth of the drug industry can be traced back to the explosive use of penicillin and the chain-reaction advance of the whole family of antibiotics. Now we may be on the verge of a new pharmaceutical miracle as Dr. Jonas Salk, developer of the polio vaccine has received a $350,000 grant to explore the possibilities of curing cancer with a vaccine similar to the one that already bears his name.

Industrial Dryer-Blender



Dryer-blender, has a unique glass-on-steel lining. It is used for bulk products in the chemical, food, and pharmaceutical industries.

Actually, the intimate relationship that exists between most forms of pharmaceutical research makes many members of the industry optimistic that in a few short years we may be able to control almost all bacterial diseases, and perhaps even wipe them from the face of the earth.

But there are other hopeful signs, as well. The use of radioactive isotopes—by-products of atomic energy reactors—now allows medical science to trace the flow of materials through our body so accurately that valuable therapeutic knowledge is turning up every day. There is already evidence that heart failure and coronary attacks result at least partially from changes in the body's chemical structure. Once it is known what these changes are—and we are finding out—injections of appropriate chemicals may come into widespread use to forestall heart attacks. To appreciate the boon this will be, it need only be cited that heart aliments take more lives in the U.S. than any other single disease.

Virtually all American pharmaceutical companies are working on these projects, making it impossible to predict which will succeed first. In any event, it seems apparent that the enormous growth of the industry in the last few years may have been just a preamble to what is yet to come.

War Babies

So much of our national research effort is concentrated in the military sphere that developments

in weapons systems must be included in the general subject. Readers of The Magazine of Wall Street have kept well abreast of these developments in special articles on high energy fuels, electronics, automation, solar energy, and even in the extraction of wealth from the sea. Several new developments require discussion, however.

Just a year ago the rocket fuel industry was at a loss for more efficient oxidizers to combine with kerosene or borane compounds in the firing chambers of missiles. Within the past few weeks, however, Bell Aircraft and Allied Chemical have demonstrated the successful use of liquid fluorine as an oxidizer, which can increase the power of rocket engines by as much as 40 times. With this new fuel component it may now be feasible for us to launch satellites even larger than the giants the Russians have tossed into the upper reaches.

Of greater significance than rocket engines, however, is the recent amazing feat accomplished by the atomic submarine Nautilus in travelling the full length of the arctic under the polar ice cap. Although this remarkable achievement lends a new dimension to offensive and defensive warfare by enabling our subs to travel vast distances undetected, there are also widespread peacetime implications to the feat.

First is the possibility of cargo carrying submarines which can be used to ship freight to Europe more rapidly using the much shorter trans-polar route. The implications for shipping companies, and the potential business for experienced submarine builders such as General Dynamics and Newport News Shipbuilding is enormous. Once again, the reality is probably a long time off, but the potential now exist, nevertheless.

Of perhaps more immediate importance to American industry is the fact that the entire trip under the ice cap was navigated by means of an inertial guidance system, demonstrating conclusively the practicability of this revolutionary device. In effect, the Nautilus was kept on her true course despite the fact that neither the navigation system nor the ship's crew had any contact with the stars, landmarks, radio or radar check-points. North American Aviation, and other companies including Bendix Aviation and American Bosch-Arma developed inertial guidance for missiles, but the Nautilus' accomplishment demonstates the feasibility of using it in all forms of commercial and military navigation. A system which is foolproof, and jam proof since it has no reliance on things outside itself, will save countless lives and may make flying and sailing in all types of weather as safe as crossing a rural street.

Aside from the Nautilus, the Navy has recently perfected a new device, which though less spectacular may revolutionize ship design. This is the new "cavitation" propeller which can increase the speed of ships without resort to expensive jet engines. The propeller, developed in naval laboratories in very recent weeks, is the first real advance in this field in scores of years and could conceivably lead to a complete revaluation of the usefullness of surface ships to our Navy.

Silent Sound

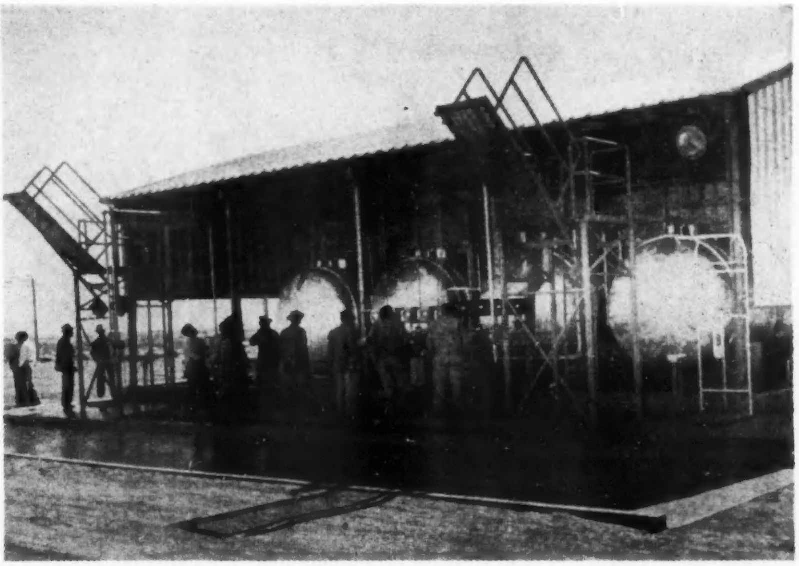
Predicting the new industries of tomorrow from the avalanche of innovations coming to market each year is a hazardous guess, at best. Undoubtedly, some will prove to have only limited, if exciting usefulness, while others will be rendered obsolete before they can reach full maturity. One of the few, however, that appears destined for enormous vitality is the field of "silent sound," or more technically, Ultrasonics.

This difficult to understand new science traces its origins back to the invention of the first dog whistle in 1883, which was inaudible to human ears but well within the range of canine hearing abilities. However, a full fifty years had to elapse before science could begin to turn ultrasonics into useful products with more general applicability than calling off the dogs.

Interestingly enough, it is significant that this new field has equally exciting prospects in both the military and the civilian spheres. For instance, a weird sounding device called an "ultrasonic liquid level sensor" is in wide demand by missile manufacturers as a device for accurately measuring and controlling the flow of rocket fuel from tanks to the rocket engines. But the same basic process can also be used—and is being used commercially—to drill teeth, sterilize surgical instruments, clean clothes, tenderize meat and clean wrist watches.

Ultrasonics is a new field, with total sales probably below $25 million (excluding Sonar, which was developed during the war for submarine detection), but the roster of important companies

Missile Filling Station



The first installation designed to store and blend liquid fuels for guided missiles has just been completed at the Army's White Sands Proving Ground, New Mexico.

already in the field is ample testimony to its long range appeal. The list includes American Telephone, GE, Clevite, Raytheon Mfg., Westinghouse, Sylvania, Avco, Curtiss-Wright and Bendix Aviation. In addition, scores of smaller companies are springing up with special products, so that the field is beginning to resemble a junior version of the burgeoning electronics industry.

This is not a technical paper on the physics of ultrasonics, but its uses point to an inevitable commercial products breakthrough in a short time. On one vital level it already provides the only means for decontaminating porous metals that have been subjected to radioactivity. And it has also been used successfully in fog dispersion and in the drilling of such hard substances as glass, carbides and ceramics. But we are also on the threshold of ultrasonic dishwashers, hi-fi components, coffee makers, burglar alarms and air purifiers. As a matter of fact, it is even considered possible that ultrasonics holds the key to clearing up the polluted air of most of our major cities.

An industry with important services to offer to almost every other major industry must grow—and astute investors will keep a careful eye out for sound participation in this new field.

Wireless Electricity

The fifty years that had to elapse between the dog whistle and commercial applications of ultrasonics need no longer concern us. New developments today call forth much more concentrated effort, enhancing the chances for quicker exploitation. For this reason, Westinghouse Electric's very recent announcement of the development of a ceramic material that can directly convert heat to electricity, holds exciting potentialities.

With characteristic modesty, the company as yet forecasts no commercial applications for the new process except for running small electric motors, but certain possibilities are obvious. In the space age, miniaturization is essential, and the idea of radios and electric motors without cumbersome batteries is too exciting to be placed on the shelf. Moreover, the direct conversion of heat to electricity has been a scientific dream for almost 100 years. Now that the door has been opened it is reasonable to suppose that tremendous effort will be expended to refine the process and bring forth commercial and military uses.

Taming the Atom

Until recently most literature on atomic power concentrated on uses to be derived from the fission process associated with atomic reactors. In just the past month however, dramatic evidence has been presented to the world that the United States and Britain have jointly succeeded in harnessing the enormous power of the H-Bomb. The power potential of the fusion process is almost limitless, as is the hydrogen from which it is derived.

In effect, Anglo-American scientists have succeded in duplicating the process that gives the sun its endless heat and energy. An effective method of harnessing this power is now at hand. It matters little for the present that costs are high and that it may be decades before fusion power can be used commercially. What does matter, is that there is no longer any chance of the world running out of power reserves.

New World-A-Comin'

The foregoing are just a sampling of the output of today's creativity. Scientific journals are chock full of new experiments, new materials and new methods that will in time give birth to undreamed of miracles. Eastman Kodak, for example, just announced the development of a new synthetic that will outperform Du Pont's dacron—and in short order something better will probably replace the new material.

On another level, science is having impressive success in altering chemical structures with magnetism; and new catalysts that speed up chemical reactions are literally gushing forth from research organizations. With such a prolific outpouring it is impossible to predict what new materials will develop, since in this field our ability to create changes has outstripped our capacity to imagine new materials.

One thing is certain. The process of change has been accelerated beyond man's most optimistic dreams so that in all probability his cautious predictions of things to come 100 years from now may well be old hat in ten, fifteen or twenty years.

Fortunately for the investor the problem of participation is not too difficult. For most of today's miracles are worked in corporate laboratories, assuring today's companies a representative standing in tomorrow's industries. Can there be any better reason for owning a share of America's corporate enterprise?

Pumping With Sound

Sonic pumps that cost 20 to 50 per cent less than comparable sucker-rod pumps work by converting power into sound vibrations. As the tubing vibrates the oil is forced upward by a series of check valves.

Dilution of Investment Risk...

Through Companies with Major Outside Interests

By Marius Jalet

◆ In times like these, it is important for investors to diversify their holdings if they are to maintain a sound invested position against the various contingencies that might arise and the possibility of an inflation resulting from continuing deficit spending.

Companies which have made major investments in affiliated or other enterprises have always been of keen interest to thoughtful investors. Seldom has this been more true than in this day of acquisitions, mergers, spinoffs, and surging rip-tides in the equity markets. In the foreground is the attempt of the Federal Trade Commission, armed with an unprecedented decision by the Supreme Court, to liquidate the most mammoth of all corporate investments, i.e. du Pont's holdings in General Motors. So far as can be recalled, no one in the investment business has ever matched, much less topped this holding.

From the analytical viewpoint, appraising the relative importance of a company's investments to its own stockholders, is not too difficult. The holding company's income from its investments is usually shown or included in "Other Income," and, from this the equivalent amount per share can be calculated. The term "holding company" is grammatically correct, but in Wall Street's idioms has a somewhat different and not very happy connotation. The management of du Pont would be aghast to have it referred to as a holding company, although it does have large holdings.

The second routine analytical step is then to calculate the market value of the investing company's holdings, and relate this to the quoted market value of the company's own shares. This has been done for a number of leading enterprises in the following tables. Readers are cautioned that these methods do not show fully or completely the position of the leading oil companies. These are discussed later.

As will be noted, the investment income often is an important factor, and sometimes a dominant factor in any given company's earnings. In addition the liquidating value of a company's investments in other companies also is a material or major factor in the market price of a given company's stock. Each enterprise is figured differently and no general formula applies.

About the only general rule which does apply is that investments by one corporation in another tend to be either concentrated in affiliated enterprises or

Companies with Investments in Closely Related Fields

Company	Number of Shares Held	Investments in Other Companies	Percent of Ownership	Value of Holdings Per Share 9/11/58	Income From Holdings 1957
American Metal Climax (14,153,448 sh. outstdg.)	141,550	Consol. Coppermines	7	$ .11	$ 113,240
	328,200	Copper Range	17	.63	328,200
	201,369	O'okiep Copper	20	.91	1,403,541
	11,446,617	Rhodesian Selection Trust	51	1.92	1,945,924
	11,735,872	Roan Antelope Copper	33	3.73	6,102,653
	1,543,078	San Francisco Mines	38	.27	972,138
				$ 7.57	$10,865,696
Amer. Smelt. & Ref. (5,446,602 sh. outstdg.)	238,523	Cerro de Pasco	14	$ 1.53	$ 381,636
	966,218	General Cable	35	6.92	1,932,436
	130,618	Kennecott Copper	1	2.23	783,708
	938,148	Revere Copper	36	5.00	1,970,210
	379,211	United Park City Mines	10	.10	—
				$15.78	$ 5,067,990
Anaconda Co. (10,409,191 sh. outstdg.)	596,094	Anaconda Wire & Cable	71	$ 2.98	$ 1,788,282
	3,540,318	Andes Copper Mining	99	9.18	—
	69,700	Butte Copper & Zinc	12	.04	—
	4,395,006	Chile Copper	99	18.58[1]	16,481,272
	333,000	Inspiration Consol.	28	1.05	1,082,250
	526,057	United Park City Mines	14	.08	—
				$31.91	$19,351,804
Baltimore & Ohio (2,546,951 sh. outstdg.)	235,065	Reading Co. 1st Pfd.	42	$ 2.96	$ 470,130
	345,600	Reading Co. 2nd Pfd.	41	3.80	691,200
	600,000	Reading Co.	43	4.98	1,200,000
	167,127	West. Maryland 1st Pfd.	94	[2]	62,672
	8,000	West. Maryland 2nd Pfd.	13	.24	32,000
	214,747	West. Maryland	32	5,82	161,060
				$17.80	$ 2,617,062
Burlington Industries (8,507,348 sh. outstdg.)	745,849	Pacific Mills	78	$ 2.54	$ 633,971
New York Central (6,499,141 sh. outstdg.)	132,825	Dela., Lack. & Western	8	$ .18	$ 82,351
	433,984	Pittsburgh & Lake Erie	50	4.89	2,603,904
	136,800	Reading Co. 1st Pfd.	24	6.73	273,600
	200,313	Reading Co. 2nd. Pfd.	24	8.63	400,626
	2,935	Reading Co.	*	.09	5,870
				$20.52	$ 3,366,351
Panhandle East. Pipe Line (6,762,694 sh. outstdg.)	1,500,000	National Distillers	17	$ 5.54	$ 1,500,000
Pennsylvania R. R. (13,167,754 sh. outstdg.)	645,000	Lehigh Valley R. R.	43	$ .44	$ 580,500
	527,168	Norfolk & Western Pfd.	58	.84	527,168
	2,397,284	Norfolk & Western	43	12.74	9,589,136
	192,904	Wabash R. R. Pfd.	62	.90	868,068
	594,061	Wabash R. R.	99	[2]	3,415,850
				$14.92	$14,980,722
Sinclair Oil (15,312,653 sh. outstdg.)	1,223,581	Richfield Oil	31	$ 7.03	$ 4,282,533
	1,091,692	Texas Pac. Coal & Oil	30	2.49	1,091,692
				$ 9.52	$ 5,374,225
Standard Oil (Ind.) (35,769,010 sh. outstdg.)	1,221,814	Midwest Oil Corp.	48	$ 1.19	$ 1,282,904
	3,250,000	Standard Oil (N.J.)	2	5.09	7,312,500
				$ 6.28	$ 8,595,404
Standard Oil (N.J.) (203,488,402 sh. outstdg.)	73,716,135	Creole Petroleum	95	$26.09	$296,264,540
	62,845,717	Humble Oil	88	21.62	84,841,717
	21,824,860	Imperial Oil	70	4.83	26,189,832
	11,993,992	Internat'l Petroleum	83	3.00	16,791,588
				$55.54	$424,087,677
Union Pacific (23,229,100 sh. outstdg.)	20,000	Anderson-Pritchard Oil	1	$ .02	$ 24,000
	24,192	Baltimore & Ohio Md.	4	.06	96,768
	733,940	Illinois Central	24	1.32	2,652,275
	85,682	New York Central	1	.07	85,682
	115,200	Pennsylvania R. R.	*	.07	144,000
				$ 1.54	$ 3,002,725

*—Less than 1%

1—Based on last market price 8/4/58.
2—No market price available.

else diversified over outside unrelated fields. And yet not even this rule works too well, as certain of them, McIntyre Porcupine for instance, have both types of investment. However, for analytical purposes, in the accompanying tables we have sought, in-so-far as practical, to classify investments either closely related or in varied fields.

Special Methods of Corporate Investing

Aside from the actual calculations which may be of primary interest to the many investors in these shares, one other dimension of investments by one corporation in another emerges which has seldom been fully recognized or adequately treated. This is the fact that when one corporation begins to buy into another, it would appear to violate one of the cardinal principles that is important in the investment policy of trust companies, mutual funds, investment companies and other institutions which are in the business of investing other people's money.

This principle is diversification. The First Commandment in the investment business is to diversify. It is the unquestionable Word. Reduced to a truism, it states, "do not put all your eggs in one basket."

But that is not usually the way corporations do it. Rather it may be just the reverse. Sometimes they put so much money in one basket, it would alarm the average mutual fund manager. As will be noted from the table which lists the investments, few if any companies diversify their holdings in the usual Wall Street meaning of the word. Even the most diversified, McIntyre-Porcupine, does not, for example, carry as much as one share of a chemical stock, an electronic stock, or other issues that are considered the sine qua non of a heads-up investment trust.

Equally apparent is another characteristic which is well worth a second thought by every investor. Commitments usually are made on the longest term basis possible . . . which is in most instances for

Companies with Investments in Varied Fields

Company	Number of Shares Held	Investments in Other Companies	Percent of Ownership	Value of Holdings Per Share 9/11/58	Income From Holdings 1957
Allied Chemical Corp.	414,570	American Viscose	8	$ 1.25	$ 829,140
(9,922,192 sh.	55,225	Libbey-Owens-Ford	1	.51	198.110
outstdg.)	416,618	Owens-Illinois Glass	6	3.06	1,041,545
	100,000	U. S. Steel	*	.78	300,000
	43,502	Vir.-Car. Chem. Pfd.	9	4.08	261,012
				$ 9.68	$ 2,629,807
du Pont (E.I.)	5,905,310	du Pont of Canada	82	$ 2.85	$ 2,952,655
(45,604,305 sh.	63,000,000	General Motors	23	62.17	126,000,000
outstadg.)	36,588	Remington Arms Pfd.	99	.08[1]	164,000
	4,508,622	Remington Arms	60	.94	2,479,742
				$ 66.04	$131,596,397
Gulf Oil	2,307,000	British American Oil	23	$ 3.26	$ 2,307,000
(31,130,789 sh.	8,335,648	British Am. restrict. com.	100	9.37[1]	—
outstadg.)	360,000	Halliburton Oil Well C.	10	.74	864,000
	130,000	Trans. Mt. Oil Pipe L.	9	.26	260,000
	$120 mil.	Union Oil cv. debs.	—	3.47	3,900,000
				$ 17.10	$ 7,331,000
McIntyre Porcupine	6,000	Abitibi Power & Paper	*	$ .28	$ 10,200
Mines	400,000	Algoma Steel	11	17.31	400,000
(762,595 sh.	36,630	Aluminium, Ltd.	*	1.39	32,051
outstad.)	56,282	American Metal Climax	*	1.82	67,538
	201,000	Amerada Petroleum	3	28.98	402,000
	5,000	Asbestos Corp.	*	.21	8,750
	130,000	Bell Telephone Canada	1	7.33	260,000
	29,000	British American Oil	*	1.68	29,000
	9,000	Consol. Mining & Smelt.	*	.25	14,400
	12,550	Consol. Paper Corp. Ltd.	*	.63	25,100
	138,000	International Nickel	1	15.11	475,500
	9,000	Powell River	*	.42	13.500
	20,000	Standard Oil (Calif.)	*	1.35	38,000
	80,000	Standard Oil (N.J.)	*	5.93	180,000
	23,332	Steel Co. of Canada	*	2.05	44,330
	400,000	Ventures, Ltd.	11	15.74	200,000
				$100.48	$ 2,200,369
Owens-Illinois Glass	270,000	Container Corp.	3	.90	$ 270,000
(7,143,287 sh.	417,886	Continental Can	4	2.86	752,194
outstdg.)	325,000	Monsanto Chemical	2	1.54	325,000
	1,235,859	Owens-Corning Fiber	32	15.35	1,680,000
	37,214	Pennsylvania Glass Sand	5	3.02	66,985
				$ 23.7	$ 3,094,179
Phelps Dodge	200,000	Amerada Petroleum	3	$ 2.16	$ 400,000
(10,142,520 sh.	712,161	Americana Metal Climax	5	1.75	854,593
outstdg.)	195,000	N. J. Zinc	10	4.42	267,150
				$ 8.33	$ 1.521,743
Sears Roebuck	67,025	Armstrong Rubber "A"	5	$ .02	$ 67,025
(75,061,754 sh.	170,163	Geo. D. Roper Corp.[2]	46	.03	—
outstdg.)	87,660	Globe-Union	11	.02	105,192
	13,200	Murray Ohio Mfg.	5	.01	26,400
	2,827,609	United Walpapaer, Com.	91	.24	706,902
	933,000	Whirlpool Corp.	19	.29	1,306,200
	55,879	Whirlpool Corp. Pfd.	26	.04	189.988
				$ .65	$ 2,401,707
Stone & Webster	86,666	Oklahoma Nat. Gas	3	$ 1.37	$ 129,999
(2,061,913 sh.	665,211	Tennessee Gas Trans.	3	10.00	665,211
outstdg.)	1,062,500	Transcont. Gas Pipe L.	16	11.85	966,875
				$ 23.22	$ 1,762,085
Texas Company	2,104,700	McColl-Frontenac Oil	65	$ 2.33	$ 3,472,755
(55,937,434 sh.					
outstdg.)					
U.S. Smelting	20,000	Anderson-Prichard Oil	1	$ 1.21	$ 24,000
(544,627 sh.	20,067	Island Creek Coal	1	1.51	40,134
outstdg.)	411,174	Scurry-Rainbow Oil	3	1.32	—
				$ 4.04	$ 64,134

*—Less than 1% 1—Estimated. 2—Formerly Florence Stove Co.

keeps. They are almost never made on a short term hit-and-run basis. Thirdly, when marking huge investments on a "for keeps" basis, the investing corporations usually put one or more men of their choosing on the Board of Directors of the company in which they invest. This is their way of watching the basket, to paraphrase the late Andrew Carnegie, himself a very successful one-basket man. But most investment institutions follow the diversification pattern. Considering the many legal and liquidity problems faced by these institutional investors, they have no choice but to diversify. Nor are they equipped with management personnel to follow the corporate plan of procedure. It would not make much sense for an industrial corporation to keep the stockholders' money, and invest it for him, as an investment institution would do.

But somewhere there is a mean . . . of necessity a golden mean, for an aggressive corporate treasurer, or comparable financial officer, to fortify his company's finances, improve its earning power, broaden its interests and scope, and bolster its competitive position, not only in its own business, but as an investor in outside fields. In the process, he may run up a profitable score for his company. It has been done, and will be done again.

This is also the place to point out that the principal financial officer of a leading corporation in most cases is in an unusually strong position to make the decisions which investors of all types must ponder over and finally face. It necessarily follows that, if he were not a person with strong financial insight and unusual talents, he would not be the treasurer of a leading corporation. Such men do not usually need any lessons from Wall Street . . . rather they could give them. Armed with the information that comes to them at first hand, they are in a strong position. We are referring of course to the most able executives for as has been shown these

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Inside Washington

By "VERITAS"

ELECTIONEERING by President Eisenhower in the next several weeks is likely to be conducted on a less partisan basis than marked his unsuccessful try two years ago to persuade the voters that he needed a Republican Congress to do the job ahead. Ike is not steeped in party politics, either by nature or by sense of obligation to the GOP. He is expected to lend the value of his presence in key districts, but he realizes that to loose broadside attacks would transparently ignore the aid given to his program by the democrats, much of which was saved by Senator Lyndon Johnson from assured defeat. From a more practical viewpoint, he still has two years to go with the virtual certainty of having to live through them with a democratic Congress.

> **WASHINGTON SEES:**
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> The exodus to Suburbia to avoid the traffic and turbulence of downtown, or for other reasons, is becoming a No. 1 priority problem for solution by tax officials. It is creating dislocations that impair the ability of many cities to provide essential municipal services. Because Washington, D.C., which is a "protectorate" of Congress, is beginning to feel the full force of the move to the outskirts, Capitol Hill's District of Columbia Committees will begin hearings next year.
>
> Washington is in the process of imposing a substantial increase in real estate tax. But while most bills will go up, the taxes on centrally located shopping enterprises will go down. The reason is simple: the movement out of town, followed by new shopping centers in the suburbs as well as branches of the large Washington department stores, has cut business and the loss is reflected in the rental value, or return on investment, of structures in the central zone.
>
> Racial integration of Washington schools has carried the tax realignment into residential areas of the Capital. In the past two years, the ratio of Negro to white pupils switched from about 45 per cent to about 73 per cent. The bulk of the residential movement has been to new homes in Virginia and in Maryland. In each of these states, school integration is in process but in Maryland particularly it has raised no ruckus because children are required to attend schools in their own neighborhoods.

HISTORY is emphatic on the point that a President cannot fight a hostile Congress. He must "get along" with Capitol Hill. President Woodrow Wilson campaigned for a democratic Congress and didn't get one. The damage done is recorded in the disintegration of foreign affairs after World War I. President Hoover went through the motions of pleading for a Congress of his own party, then faced two years of strife which, without doubt, prolonged the depression. Ike found two years ago that he could sell himself and his program, but not the "job lot" or package deal of would-be Senators and Representatives. In this campaign he will be on safe ground praising the record of a GOP candidate in his own bailiwick: he's already announced he'll make only selective stops.

ESTIMATES of democratic pickup in the Senate range from 4 to 10 seats, and from 30 to 40 in the House. Retirements, voluntary and forced, will be numerous this year. The GOP will give up three members for each one lost to the democrats, on the November ballot. From the standpoint of experience, the republican loss will be even greater: outgoing republicans have had an aggregate of 488 years experience, democrats not up for re-election total 113 years of service. Also to be reckoned with this year is 2 new Senators for Alaska, which leans towards the democrats.

UNMISTAKABLY the odds against the republicans have shortened in the past several weeks. It hardly was encouraging when GOP National Chairman Meade Alcorn, in an attempt to build optimism, predicted that his party would win in "another Harry Truman election." That grounded the prospect of victory on a massive upset. It's not that bad. Business has been coming back faster than expected — if spottily. Taxes didn't come down; but they didn't go up either. We owe more, but we aren't paying more. This year, that is!

As We Go To Press

►The size of the next Federal budget and the tax rates necessary to support it are matters in which Congress will have little influence. Committments already made, and dubious results from international conferences, enter into the determinations. Together they add up to more spending, more taxes, and the next session of congress can be little more than an instrument to clear and formalize. War, past and threatened, writes the ticket. To pay for those which have been fought (including the Civil War) and to take care of pensions and other benefits, when added to the defense program, aid, and other immediately related expenses, accounts for $61 billion out of an expected revenue of $67 billion.

►The area of operation for budget-cutters is a $6 billion segment of the Treasury income. Out of that must be paid the cost of general government activities, including agriculture; river, harbor and flood prevention; housing; welfare. And the Comptroller General's office will clear away that $6 billion in a hurry and add another $12 billion — deficit financing. The military program and the development of atomic energy illustrate the problem Capitol Hill economizers face: each new appropriation for these purposes is the down payment on an extended activity which grows in cost with each succeeding year.

►Theoretically, at least, a decision to halt nuclear bomb testing and the trend toward disarmament such a step would take, would reduce the need for back-breaking military expenditures. But Congress would move with the greatest caution. In the current state of the cold war, preparedness is the nation's insurance policy. And the premium comes high. Improvement in the economy would increase Treasury incomes. That wouldn't bring recovery and the drain motivated by the recession into exact balance: while no dramatic moves were made to offset unemployment, there was some acceleration of public works and research — outlays which run their course and don't stop on signal.

►Treasury people are counting on a slow but steady recovery from the recession out of which the country now is emerging. This would bring a boost in tax receipts. If all goes well, a budget levelling at about $80 billions in 1961 is foreseen. That contemplates no hitch in business, no hog-wild spending by Congress and, of course, no war. But hanging over this forecast is a low ceiling of proposed appropriation bills, log-rolling in purpose, and socialistic in genesis — and never to be "counted out."

►When the budget for the current Fiscal Year is appraised it is immediately apparent that no substantial economy can come out of cutting Federal payroll. The entire civilian roll accounts for about one-seventh of the budget total. If entire operations — the Department of Agriculture for example — were to be canceled, the savings would not be impressive. Sometimes it appears that no one in Washington is giving thought to a balanced budget. This fails to give due credit to President Eisenhower: in his budget message this year, he proposed 17 ways to increase Federal revenues or reduce Federal spending. If enacted, the propositions would have reduced the budget level by $3.5 billion annually. As it happened, only postal rate increase and curtailment of the soil bank were accepted by Congress. And, then, the lawmakers took offsetting actions in each instance, reducing the net saving.

►The man most directly responsible for preparation of the annual estimates, Budget Director Maurice Stans, believes a five-point program can lead to balanced budget and tax relief: maintain national strength until a secure understanding is reached with Russia, then de-militarize slowly; exercise restraint on new spending for civil purposes, or increasing present levels of such spending; seek gradual, long-time reductions in present Federal Government activities; increase "user" charges to recover cost of services given specifically to identifiable

individuals or groups (postal services, for example) encourage upward growth of the economy, thereby increasing national revenues.

►It was not surprising that President Eisenhower gave the nod to Treasury Secretary Anderson to move for increase in the quotas of 60 member nations joined in the World Bank and the International Monetary Fund. Foreign aid was given more attentive scrutiny this year than ever before, giving greater voice to the proposition that give-away is not the best answer to the fiscal problems of many of the friendly countries. Then, too, the Latin American countries, unwilling to accept gifts and unable to finance their development programs, showed dangerous signs of pulling away from the United States on international policy matters. The Fund has made short-term loans to 35 countries, distributing about $3 billion with mutual advantages. Some of the loans have revitalized import-export trade by knocking down artificial barriers at international borders.

►Next step will be in the direction of making loans available on the collateral of soft currencies. This would open the bank doors to many countries which need help, are basically friendly to the United States and, all things weighed, are good risks. Projects can be worked out in some parts of the world where the local currencies could be returned with full effectiveness. If satisfactory progress has not been made administratively before the new Congress convenes, Senator A. S. Monroney plans to introduce legislation. He served notice on the point before adjournment last month.

►The idea of loans rather than give-away is being given practical test in India today. That nation needs $350 million between now and March 1 to insure progress in its industrial development program. The full amount seems assured by expressions of interest by the United States, Britain, Germany, Canada, and Japan, with the World Bank prepared to underwrite the difference, if any. That won't solve India's problem. The five-year plan on which she has embarked will ultimately cost $600 million and looks to improved living conditions for 400 million persons. A meaningful number, from any viewpoint!

►Experience over a period of years, to which the recent session added its share, has given birth to strongly-supported reforms in the operations of Congress. Since quitting Washington, many influential members have voiced their dissatisfaction with existing methods, promised their aid in effecting changes. If there is a large turnover on the basis of the November election, the movement will grow: "freshmen" members are the most oppressed under the system which allows unlimited debate in the Senate (where they have difficulty being recognized when their seniors wish to filibuster), and which permits the Rules Committee to cut off debate entirely, kill legislation and otherwise prevent the newcomer from "making a record."

►Rep. John W. McCormack, majority leader in the House, has a king-size gripe. The Leader is presumed to have a powerful voice in the scheduling of bills for action, both in their sequence and in the time for debate and amendment privilege. Complained McCormack: "Members keep coming to me to ask about the program. And I can"t tell them. I would like to know myself!" There is talk of reviving the 21-day rule under which any committee chairman denied a "rule" for his bill could take it directly to the floor. Rep. Howard W. Smith of Virginia, is chairman of the Rules Committee. He has been a Congressman for almost 30 years and never has to campaign for re-election from his ultra-conservative district. When he personally disapproves a bill, or any part of it, he refuses to schedule it for committee consideration, without which it cannot be called up for debate and vote.

►If members of Congress paid attention only to the needs of their home towns, the cities wouldn't have a chance! A review of the membership, by residence, shows that 60 of the 96 Senators, and 240 of the 431 Representatives, live in communities of less than 35,000 population. But Senators are elected state-wide and Representatives are sent here by Congressional district, which in almost every instance includes larger urban than rural population. One of the surprises is the fact that 20 of New York State's 43 Representatives live in cities and towns having fewer than the aforementioned 35,000 population.

Forecasting our Trade Prospects with Europe and Latin America

By Erik I. Morton

- **The serious problems and dollar shortages in Latin America**
- **Russia's new economic offensive there**
- **European markets for U.S. agriculture, machinery, machine tools, etc.—for expansion of American plants abroad — for European investments in local industries**

EUROPE holds the key to a substantial U. S. export volume next year, for World exports will fall to roughly $92.8 billion in 1958, about $8 billion under the previous year's mark. Strong indications are that global trade will not show an upturn, if at all, until the second semester of 1959. Deteriorating credit conditions in Latin America, as a result of Russia's planned program to dump metals and minerals on world markets, means that the United States must look to other areas to expand her future exports. In fact, American businessmen must count on another 10% drop in shipments next year to the Latin American Republics. (U. S. exports to Latin America during 1957 were $4.6 billion). This will result from exchange shortages brought on by inability to earn dollars from metal sales.

Russia's Economic Offensive

Moscow's economic offensive to capture normal U. S. markets in the Western Hemisphere already has been effective in crippling distribution channels for Bolivian tin and Colombian platinum as well as Canadian aluminum. As the exchange earnings of our neighbors decline further, the U. S. exporter is bound to face longer delays in payment for his shipments. Latest credit surveys now indicate a lengthening of remittances for Boliva, Chile, Peru and other Latin American metals producing countries.

The European Markets

Machinery—To offset these declining Latin markets, American business will have to depend on Western Europe to take up the slack in overseas sales. This is possible despite the beginning of the European Common Market on January 1st.

U. S. agricultural exports to Europe during 1959 will account for approximately 25% of our shipments to the continent. And American sales of plant equipment and machinery throughout Europe will be impressive, as the rush of U. S. companies to set up distributing centers and arrange licensing agreements in the Common Market will call for extensive American shipments of machinery and other heavy capital equipment. Therefore, the dollar volume of U. S. exports in 1959 will hold steady at this year's rate of $16.5 billion.

At the same time, many European countries will make heavy investments in their industries to replace obsolete production facilities. Although a good number of these plants are as up to date as

U.S. Companies with Overseas Investments

COMPANY	COUNTRY	PRODUCTS
American & Foreign Power	Venezuela	Power
Borden Chemical Co.	Mexico	Formaldehyde
Burgess Battery Co.	India	Batteries
Clark Equipment Co.	Belgium	Ind. Mach. & Equip.
Coca-Cola	France	Beverages
Corn Products Refining Co.	Colombia	Corn Products
Creole Petroleum	Venezuela	Petroleum
Eastman Kodak Co.	Netherlands	Photographic Equipment
General Motors	Germany	Automotive Products
Goodyear Tire & Rubber	Philippines	Tires
H. J. Heinz	Netherlands	Processed Foods
Int. Buis. Mach. Corp.	Argentina	Computers
Merck Sharp & Dohme	Brazil	Medicinal Chemicals
Monsanto Chemical Co.	England	Chemicals
Motorola, Inc.	Australia	Home Appliances
New Britain Machine Co.	France	Machine Tools
Radio Corp. of America	Colombia	Electrical Products
Union Carbide Co.	Mexico	Graphite Electrodes
U. S. Rubber Co.	Italy	Rubber & Chemical Products
Worthington Corp.	Italy	Machinery, Pumps
W. A. Sheaffer Pen Co.	Brazil	Pens
W. R. Grace	Peru	Chemicals
Yale & Towne Mfg. Co.	United Kingdom	Industrial Machines & Equip.

their American counterparts, many others are antiquated relics from pre-war and "occupation days."

In the opinion of the world's leading trade experts, the current rate of our exports is indeed a healthy base to maintain. Actually it is close to the second-half rate of 1957. In that year, exports rolled up the incredible all-time high of nearly $20 billion as a result of abnormal stimulants in the early months of the year from the Suez crisis and European drought.

West Germany will be able, to some extent, to supply part of Western Europe's capital equipment needs. However, German entrepreneurs will place increasing emphasis on consumer processing industries to satisfy growing domestic demand. This will be at the expense of exports. Already there are clear signs that Germany's backlog of foreign orders is tapering off and that volume of future contracts will not match the 1954-1957 rate for the next few years. New investment in local plant and equipment will amount to $70 billion in the next five years, absorbing a large part of the capital investment marks. Germany also will seek to overcome weaknesses in textiles, aviation and nuclear energy. Development of these fields was sidelined in an effort to build up gold and foreign exchange holdings.

Britain will invest heavily in new machinery, especially for machine tools. The British will make determined efforts to eliminate sectors of antiquated equipment in order to overcome Germany's industrial lead and the rising capacity of French industry. Petrochemicals, energy, transport and automation are the fields that will receive close attention. Real investment may rise from $9.5 billion a year to $14.5 billion in the next decade.

France will stress export to stay solvent. French industrialists are engaged in an aggressive attempt to build up productivity to assure for themselves a secure place in the Common Market. Estimates are that France will allocate roughly 20% of her national income each year to investment in new capital plant and equipment. France will be a good customer for U.S. plant equipment and machines. No French Government in the foreseeable future will dare to apply brakes to the economy and try to slow down the pace of industrial expansion. This will continue despite a severe drain on France's gold and foreign exchange holdings. The French will place considerable emphasis on expansion in machine tools, chemicals, hydraulic and nuclear installations, textiles, aircraft, construction and housing industries.

In **the Netherlands,** industrialists will be in the market for machinery due to forthcoming Common Market. Population there is increasing rapidly and is creating a demand for many items. Dutch textiles, chemicals, metallurgical items, electronics and iron and steel industries will continue to receive impressive investments.

The same will hold true in **Italy**. Many American firms are setting up licensing agreements and joint partnerships with Italian firms in the industrial North. The market there for equipment and machinery will be sizable.

Austria and the **Scandinavian countries** are actively seeking outlets both here and in South America, creating the need for equipment to boost efficient and low-cost production to compete with American offerings.

Economic Condition of Europe

Country	Main Products	——Millions of Dollars—— Gold	Foreign Exchange	Dollars in U.S. Banks	U.S. Collection Experience
Belgium	Industrials	$1,182.0	$199.0	$109.0	Very Good
Denmark	Dairy Products	31.0	160.6	113.9	Good
Finland	Wood, Pulp	35.3	179.0	46.9	Good
France	Industrials, Wine	775.0	a	301.0	Good
Germany	Industrials	2,581.0	3,360.0	1,465.0	Good
Italy	Industrials, Wine Textiles	417.0	1,212.0	1,071.0	Good
Netherlands	Industrials, Cheese	920.0	367.0	293.0	Good
Norway	Fish, Wood, Pulp	42.9	155.3	107.6	Good
Portugal	Fish Products, Wine	474.0	224.0	154.0	Good
Spain	Citrus, Iron Ore	57.0	0	31.0	# L/C Basis
Switzerland	Industrials	1,907.0	125.0	833.0	Very Good
Turkey	Tobacco	144.0	109.0	12.0	# Poor-Fair
United Kingdom	Industrials	3,190.0	a	1,060.0	Very Good

a—Included in Gold Holdings.
#—Most Exports Handled by Letter of Credit.

Economic Condition of Latin America

Country	Main Products	Gold	Foreign Exchange	Dollars in U.S. Banks	U.S. Collection Experience
		Millions of Dollars			
Argentina	Wool, Beef Grains	$126.0	$120.8	$140.0	Fair
Bolivia	Tin	1.0	1.4	22.9	Poor-Fair
Brazil	Coffee	325.0	120.0	125.0	Fair-Good
Chile	Copper	40.4	7.2	85.6	Fair
Columbia	Coffee	77.8	39.6	125.0	Fair-Good
Costa Rica	Coffee	2.1	19.7	16.4	Fair-Good
Cuba	Sugar	136.0	294.0	281.0	Very Good
Ecuador	Bananas	21.6	10.0	22.7	Good
El Salvador	Coffee	31.4	13.5	33.2	Fair-Good
Panama	Bananas	10.0	22.0	134.4	Very Good
Peru	Metals	20.1	7.0	73.0	Fair-Good
Uruguay	Wool	180.0	0	77.0	Poor-Fair
Venezuela	Petroleum	714.0	568.0	740.0	Fair-Good

Import Volume

At the same time, U. S. imports from Europe will hold steady. U.S. overall imports this year will average $12.5 billion, about $500 million under last year's peak. But the U.S. will try to discourage European producers from selling more aluminum fabricated products in the U.S. market.

How to Meet Problems of Soviet Competition

Increasing Soviet competition in aluminum is causing European producers to further subdivide the relatively few developed markets among the many aluminum manufacturers and fabricators in the Free World. This action will not cure the severe problems of oversupply and Soviet competition. Energetic development of world outlets is the answer, according to leading U.S. experts in the business. For instance, only a very slight increase in per capita consumption outside this country would absorb the current world surplus in aluminum. Per capita consumption now averages about 0.7 pounds a year in areas other than the U.S., Canada and Western Europe. American aluminum producers are considering decisive steps to channel the Free World's aluminum surplus to nations where it is needed most. American companies are recommending to the State Department that exports by private concerns should be synchronized with the Administration's program to aid economies in the less developed areas. They will actively seek cooperation of European producers.

U.S. Direct Investments Abroad
AT END OF 1957

Country	$ Millions
Canada	7,000
United Kingdom	1,600
Venezuela	1,500
Brazil	1,200
Australia	800
Mexico	800
Colombia	450
West Germany	250
Holland	150
Panama	100
Worldwide total in Billions	$23,000

This plan would make an additional primary material available to countries where the lack of such an item has been the great obstacle to industrial expansion. Moreover, the program would not require a heavy capital investment in building new facilities. Thus, an entire cycle of industrial development could be shortened substantially. The plan would be especially applicable in Latin America, where the forthcoming boom in population will spur demand for raw aluminum and aluminum foil.

These steps will help to alleviate pressure on U. S., European and Canadian aluminum firms by Russian price-cutting moves. Moscow has made it known publicly that it regards dumping of aluminum as a political weapon and not as a means of obtaining foreign exchange. The Kremlin's motive can only be explained in terms of economic warfare and the threat will mount as Soviet production of aluminum increases in the next few years.

Our Customers in Latin America

Latin America's ability to buy from the United States will be adversely affected by ample world inventories of its key commodity exports. Some of these are petroleum, wool, cotton, coffee, sugar, copper, lead, zinc and many other items. For instance, Venezuela—one of our largest customers in the Republics—will have difficulty in maintaining at most a monthly average of $75 million in imports from the U.S., as compared with $90 million monthly during 1957.

Venezuela's difficulties in marketing petroleum here will be due to the voluntary oil import quota program. Nevertheless, Venezuela will be a good customer for machinery and construction equipment. She is determined to step up her rate of industrial expansion. Shippers here can count on Venezuela to import at least $1.5 billion worth of machines, equipment and parts during the next five years.

Mexico offers excellent opportunities to American exporters of machines, machine tools and plant equipment if granted more liberal credit terms and lengthened remittance schedules. This action would enable American companies to compete with European and Iron Curtain suppliers. Only the large private and Government corporations in Mexico now benefit from the credit facilities of the World Bank and the Export-Import Bank. Smaller, antequated firms in Mexico can afford to stay in operation for the time being because of the strong local demand for goods and services. But these small companies will have to invest considerably in new and more efficient equipment to offset rising labor costs.

Meanwhile, Mexico's peso will not be devalued this year or in 1959 despite persistent rumors to the contrary. Mexican gold and dollar reserves have dipped slightly to $386 million and are not at a dangerous level. Several experts in this country advise that U.S. exporters should establish consignment accounts with Mexican agents in order to consolidate their sales position.

Brazil will face critical problems in the days ahead in marketing her coffee in view of huge world stocks and probability of a still larger crop next growing season. Pressure of cheaper grades from African-producing areas on Brazilian offerings will

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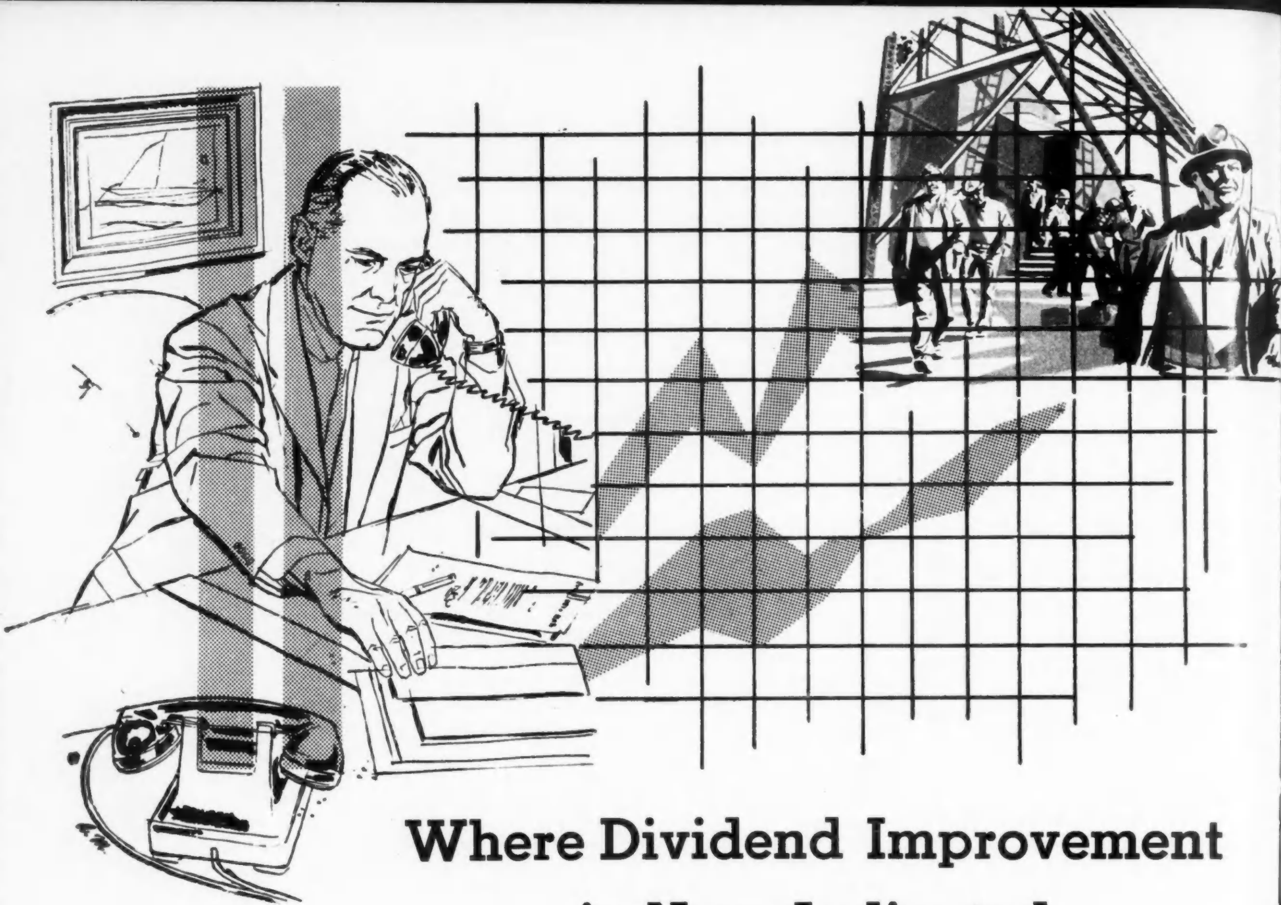

Where Dividend Improvement is Now Indicated

By Noel Hemming

►**Companies which reduced or omitted dividends—and now doing better**

►**Companies where earnings improvement makes dividends more secure**

A STUDY of the principal economic indicators shows quite clearly that the 1957-8 recession probably reached its nadir some months ago. The recovery now seems to be moving along and is gaining a momentum which should carry well into 1959. If for no other reason, the automobile industry figures will look better from now on because they will compare with production figures of the abnormally poor 1958 model year. Even discounting the perennial optimistic statements which stem from Detroit, there does seem to be a remarkable unanimity of opinion that 1959 production will be substantially ahead of 1958.

Another basic segment of our economy, the building industry, is marked by substantial gains in the number of housing starts which for the first time in several months are now running at a rate of over one million units annually. Furtherfore, the $40-billion Interstate highway program is commencing to roll in earnest and its benefits will accrue to practically all industries (except, perhaps, the already long-suffering railroads) and will last for the next several years. Since the beginning of the program, capital outlays for roadways have been steadily rising from $4.8 billion to $6.2 billion this year. Through the 1960-70 decade, an $8-billion annual rate should be maintained, rising at times in excess of that figure. We single out these industries because they are important bellwethers of our business picture and demand from them for raw materials such as steel, lumber, etc. can inject new blood into the economic stream.

Because the signs of revival are increasingly evident and the near term outlook is for continued and accelerated recovery, we have probably already had the worst of the dismal recital of dividend cuts and omissions and investors may soon be cheered by the resumption of dividends in some cases and the re-establishment of former rates in some instances where payments were reduced. Quite obviously, the timing of dividend changes by the directorates of individual companies is difficult to determine but, in the final analysis, earnings are the principal factor and figures already published for the second quarter of 1958 show that, in many cases, shareholders should soon be getting tangible benefits in the form of restablished dividends and possibly additional disbursements from those companies which have reported improved earnings.

Companies Which Maintained Dividends, Despite Narrowing Coverage, And Now Showing Earnings Improvement

	1957			1958 1st Quarter			1958 2nd Quarter					
	Earnings Per Share	Div. Per Share	Percent Div. Pay-out	Earnings Per Share	Div. Per Share	Percent Div. Pay-out	Earnings Per Share	Div. Per Share	Percent Div. Pay-out	Recent Price	Div. Yield*	Price Range 1957-1958
American Broadcast Para.	$1.10	$1.00	91%	$ .45	$.25	55%	$ .30	$.25	83%	19	5.2%	24⅞-11⅝
Beech-Nut Life Savers	2.67	1.50	56	.47	.37½	79	.61	.37½	61	38	3.9	39½-27¼
Bethlehem Steel	4.13	2.40	58	.52	.60	115	.61	.60	98	48	5.0	50⅝-33⅝
Caterpillar Tractor	4.32	2.40	55	.35	.60	171	1.20	.60	50	80	3.0	99½-55⅛
Ex-Cell-O Corp.	3.89	1.25	32	.68	.37½	55	.77	37½	48	41	3.6	51¾-28⅜
Gillette Co.	2.80	2.25	80	.62	.50	80	.70	.50	71	42	4.7	46½-32⅛
Goodrich (B. F.)	4.40	2.20	50	.70	.55	78	.89	.55	61	70	3.1	79¾-53½
Johns-Manville	2.48	2.00	80	.27	.50	185	.85	.50	58	45	4.4	52¼-34¼
National Gypsum	3.16	2.00[1]	63	.50	.50[1]	100	.84	.50	59	56	3.3[1]	57 -35⅛
Penn-Dixie Cement	2.14	1.20	56	.01	.30	3000	1.03	.30	28	34	3.5	40½-21
Pennsalt Chemicals	2.40	1.85	77	.58	.40	68	.82	.40	48	68	2.3	74 -48½
Union Carbide	4.45	3.60	80	.76	.90	118	.90	.90	100	111	3.2	124½-83⅞
United Air Lines	2.28	.50[1]	22	[d].11	.12½	—	1.30	12½	9	28	1.7[1]	43¼-18⅛
U. S. Steel	7.33	3.00	41	1.04	.75	72	1.25	.75	60	78	3.8	79 -48¼
Westinghouse Electric	4.18	2.00	47	.73	.50	68	.97	.50	51	64	3.1	69⅝-52⅜

*Based on latest div. rate. [1]—Plus stock.
[d]—Deficit.

Companies Sharing in Construction Pick-up

For instance, some of the leading companies in the building group and in the steel industry revealed a considerable betterment in sales, profit margins and earnings for the June quarter as compared with the first quarter of this year.

Johns-Manville, one of the Blue Chips in the cyclical building industry, not only reported higher earnings for the second quarter over the March quarter but, for the first time in two years, earnings per share were ahead of the corresponding period the previous year. Despite the contraction in profits last year and earlier this year, directors maintained the 50c quarterly dividend rate but have omitted the extras. We feel confident that as earnings improve the former policy of year-end extras will be reinstated when the management feels sure of a continuing profitable outlook.

Another beneficiary of the building recovery is **Carrier Corp.** After several months of declining sales and profits, directors of the company in June finally reduced the 60c quarterly rate to 40c per share. However, the earnings statement recently released covering the third quarter of the company's fiscal year (which ends Oct. 31) shows that the situation has reversed itself. For the first time this year, sales and profit margins are running ahead of a year ago and estimates of earnings for the current year are being revised upward. It now seems likely that the reduced annual dividend rate of $1.60 will be adequately covered by 1958 earnings and a return to the former rate is possible in 1959. The 1959 outlook is good for this world's largest producer of air conditioning equipment — an expanding market which has yet to experience any great degree of saturation although beset by severe competition.

A diversified enterprise such as **Allis-Chalmers** should be among the first to participate in any general business recovery; in fact, improvement so far has been gratifying. Net earnings of the company for the second quarter of 1958 were the best reported for that period in four years and reflected the sharp increase in sales volume over the first quarter. Profits of 75c a share provided more than adequate coverage for the 25c a share quarterly dividend, the new rate established last May, a reduction from the 50c rate which had been maintained for the past several years. The near term outlook for the company is good: the demand for farm machinery is running at high levels and the other two principal divisions — utility equipment and road building machinery — are now recovering, particularly the latter as the highway program is finally getting into gear. An increase in the common dividend rate could be forthcoming later this year or early in 1959.

Plumbing Companies Need More Improvement

The sharp decline in residential construction started in 1957 and in reality preceded the recession from which we are now emerging. This was particularly hard on the two principal suppliers of plumbing equipment, **American Radiator** (or American Standard as it is now called and so listed on the Stock Exchange, although the corporate name has not been changed, leading to some confusion) and **Crane Company.** Both of them have had to reduce their dividend rates although Crane held out until the June directors' meting when the 50c quarterly rate, which had been maintained for several years, was reduced to 20c per share. Some improvement in sales volume and earnings took place in the second quarter for Crane and the company is working hard to reduce costs and increase plant efficiency. In the case of American Standard, there is a similarity. The results for the second quarter showed an improvement in profit margins with a consequent increase in per share earnings. The management, which has been under some stockholder criticism of

late, should wish to redeem itself by working to produce the earnings necessary to reestablish the dividend rate, which was twice reduced, once in 1957 and again this spring.

A Look At Hard-Hit Companies

Just as they were among those hurt inordinately by the capacity build-up in preparation for huge demand from the highway program, which was too slow in materializing, so will they be prime beneficiaries as the program unfolds. We refer to **Caterpillar Tractor** and **Bucyrus-Erie,** two of the largest makers of road building equipment, and **Penn-Dixie Cement,** an important producer of cement in the Eastern, Southern and Midwestern areas. Expressing confidence in an ultimate high level of earnings from the road program, the directors of Caterpillar maintained the regular 60c quarterly dividend rate despite the fact that it was not earned for the final quarter of 1957 nor for the first interim period this year. However, improvement was marked in the second quarter with earnings of $1.20 per share compared with 35c in the March quarter and the improvement continued into July. Thus, fears, as to any reduction in the present rate should be allayed at the moment, pending the third quarter report.

Bucyrus-Erie was not as fortunate as its larger competitor and the dividend was halved earlier this year, from 50c quarterly to 25c per share. Sales and margins improved somewhat during the second quarter but it must be admitted that a return to the former rate is unlikely this year.

Penn-Dixie's current rate now seems safe. Following publication of the poor results for the first quarter when earnings were only a nominal 1c per share, there were dire predictions of a reduction, or possible omission, of the 30c quarterly disbursement but with the sharp reversal witnessed since then, when earnings for the June quarter were equivalent to $1.03 per share — the threat seems to have passed.

Steels Hold the Dividend Line

Considering the cyclical nature of the industry and the extent of the recession, the steel makers fared better than expected. None of the major producers reduced the dividend rate except **National Steel,** which has a traditionally conservative management. In our March 29th issue this year we commented on the reduction in the quarterly dividend rate of National Steel from $1 to 75c per share. We pointed out at that time that this well integrated steel company had strategically located plants, a good product-mix and that its competitive position was strong. The earnings recovery shown in the second quarter of this year justified our opinion of this well managed enterprise. Margins for the latest reported interim period were shaply ahead of the first quarter and net earnings covered the 75c per share dividend requirements, whereas in the March quarter, a portion of the dividend had to be paid from earned surplus. The company is a major supplier of steel to the automobile industry and with all of the car makers predicting substantially higher car production next year, earnings of National Steel should recover to the point where the $4 annual dividend rate can be re-established.

It is a tribute to the directorates of the two giants in the steel industry, **United States Steel** and **Bethlehem Steel,** that they were not precipated into reducing the regular dividend rates during the first half of this year when the industry was faced with the most difficult operating conditions since the Thirties. It now appears that their confidence will be well rewarded. The improvement shown during the latter months of the first half has continued and present operating ratios indicate that barring an auto strike earnings coverage from now on will be adequate to maintain present *(Please turn to page 755)*

Companies Which Reduced Or Omitted Dividends And Now Showing Earnings Improvement

	1957			1958								
				1st Quarter			2nd Quarter					
	Earnings Per Share	Div. Per Share	Percent Div. Pay-out	Earnings Per Share	Div. Per Share	Percent Div. Pay-out	Earnings Per Share	Div. Per Share	Percent Div. Pay-out	Recent Price	Div. Yield*	Price Range 1957-1958
Allis-Chalmers Mfg.	$2.11	$2.00	94%	$ .27	$.50	185%	$ .75	$.25	33%	27	3.7%	36¼-20⅞
American Radiator & S. S.	1.05	1.10	104	.11	.25	227	.19	.10	52	13	3.0	18⅛-10¼
Bell Aircraft	1.62	1.00	61	.29	—	—	.52	.35[2]	43[3]	22	3.1	24⅛-11½
Bucyrus-Erie	2.77	2.00	72	d.35	.25	—	.02	.25	1250	29	3.4	52¾-24
Bullard Co.	.29	.60	206	d.62	—	—	d.34	—	—	15	—	29⅛- 9⅜
Carrier Corp.	3.17	2.40	75	1.32	.60	45	1.21	.40	33	41	3.9	65¼-31⅛
Crane Co.	3.47	2.00	57	.21	.50	238	.30	.20	66	32	2.5	36¾-22
Curtiss-Wright	5.07	3.00	59	.62	.62½	100	.73	.62½	85	29	8.6	47⅜-20⅝
Deere & Co.	3.96	1.62½	41	1.68	.37½	22	1.92	.37½	19	44	3.0	45¼-26⅞
Electric Auto-Lite	4.72	2.50	53	.40	.50	125	.41	.30	73	36	3.3	40⅜-24½
Great Northern Paper	2.42	2.40	99	d.03	.15	—	.31	.15	48	56	1.0	85 -37
Hammermill Paper	2.04	1.50	73	.39	37½	96	.47	.25	53	30	3.3	45¼-20½
National Steel	6.13	4.00	65	.51	.75	147	.88	.75	85	64	4.6	80¼-47⅛
Philco Corp.	1.00	[1]	—	d.28	—	—	d.18	—	—	22	—	22⅜-11

*Based on latest dividend rate.
d—Deficit.
1—Paid 4% in stock.
2—Dividend for 1st 6 months.
3—Pay-out for 1st 6 months.

Can PAPER COMPANIES Break Earnings Log-Jam?

By Burton H. Wheeler

THE paper industry has been gradually overcoming the problems that developed last year from overexpansion. Price shading and reduced volume, which resulted in sharp cuts in earnings of leading companies during the last half of 1958, have been slowly replaced by a firmer price tone and by better sales. If general business conditions continue to improve, the paper industry should show larger profits.

Earnings of the leading paper companies in the second quarter were still below the level of the same period of last year. But the results in most cases were somewhat better than in the first quarter of 1958. There are indications that profits for the third quarter, of the large well-diversified paper companies and paper board manufacturers will show continued improvement, by registering a gain over the second quarter net.

Current Rate of Operations

The paper makers have actually been operating in recent weeks at a rate of capacity equal to that of last year. For example, in the final week of August, 1958, the rate for paperboard production was 95 per cent of a substantially increased capacity, as against a similar rate for a smaller capacity in the same week of 1957. Paper output was averaging 89.3 per cent, against 89.6 per cent for a smaller capacity a year ago.

Much will depend on continued confidence of paper users in the outlook for business. Makers of appliances, housewares, auto parts, textiles and other consumer goods have apparently been slowly restocking deflated inventories of paperboard boxes, in anticipation of improved business. A year ago, on the other hand, they were cutting their inventories of board sharply, and operations in the paper and board industries fell to under 85 percent of capacity.

If the hopes of better consumer demand are fullfilled, paper operations should continue their slow recovery, although it is not likely that full capacity

of the industry will be required for at least another year. On the other hand, if the Federal Reserve Board's program to slow down inflation through tight money, results in more conservative inventory policies, the recovery of the paper industry will be delayed. Inventories are still low, however. A higher operating rate is important to the paper industry right now, because leading producers would like to recoup some of the cost increases in labor and materials which they have had to absorb during the last two years.

Importance of Prices

Although paperboard makers are talking about a possible price rise in October, paper makers on the other hand, are saying nothing about prices, but then, an advance in this field often takes place without any prior warning. Prices are even more important to the paper industries than high volume, although both are important to profit margins. The price shading, averaging about 5 percent on paper and board during the early months of this year in some markets, was felt more keenly in profits, than a corresponding reduction of 5 percent in volume. Now, price shading has been virtually eliminated in the last ninety days.

In addition to better prospects for prices, the paper industry counts on better profit margins as a result of a better operating rate. If the operating

Statistical Data on Leading Paper Companies

	1st 6 Months						Full Year						
	Net Sales 1957 — (Millions) —	Net Sales 1958 — (Millions) —	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Earned Share 1957	Earned Share 1958	Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1957	Dividend Per Share 1958*	Price Range 1957-1958	Recent Price	Div. Yield %
CHAMPION PAPER & FIBRE W.C. (mil.) '56—$49.2; '57—$41.0	$ 42.5[1]	$ 40.4[1]	7.7%	4.3%	$ .72[1]	$ .37[1]	$3.14	$2.51	$1.20	$1.20	43 -31½	41	2.9%
CONTAINER CORP. W.C. (mil.) '56—$42.5; '57—$30.6	125.8	123.6	6.2	5.6	.74	.65	1.71	1.36	1.00	1.00	24¾-16½	24	4.1
CROWN ZELLERBACH W.C. (mil.) '56—$132.5; '57—$136.3	227.3	223.3	7.4	6.3	1.18	.98	3.53	2.66	1.80	1.80	58½-40⅛	55	3.2
FEDERAL PAPER BOARD W.C. (mil.) '56—$12.8; '57—$12.8	27.5[2]	26.0[2]	6.8[2]	5.7[2]	2.15[2]	1.67[2]	4.77	4.46	2.00	2.00	44⅛-29	44	4.5
FIBREBOARD PAPER PROD. W.C. (mil.) '56—$39.6; '57—$47.7	60.8	54.1	3.2	3.7	1.21	1.24	3.66	2.47	1.20[5]	1.20[5]	37 -19¾	35	3.4
GREAT NORTHERN PAPER W.C. (mil.) '56—$25.9; '57—$17.9	32.2[2]	24.3[2]	6.2[2]	1.9[2]	1.79[2]	.28[2]	5.44	2.42	2.40	.60	85 -37	54	1.1
HAMMERMILL PAPER W.C. (mil.) '56—$11.0; '57—$10.3	23.2[3]	23.7[3]	5.2[3]	4.1[3]	1.08[3]	.85[3]	4.04	2.04	1.50	1.00	45¼-20½	32	3.1
INTERNATIONAL PAPER W.C. (mil.) '56—$186.2; '57—$190.8	490.3	442.5	7.7	6.8	2.94	2.34	7.05	6.18	3.00[5]	3.00	110¾-82½	109	2.7
KIMBERLY-CLARK CORP. W.C. (mil.) '56—$94.6; '57—$85.3	75.9[4]	82.8[4]	7.1[4]	7.0[4]	.64[4]	.68[1]	2.92	2.86	1.80	1.80	63 -40½	62	2.9
LILY-TULIP CUP W.C. (mil.) '56—$21.2; '57—$20.0	40.8	41.7	8.2	7.1	2.13	1.87	3.87	4.12	1.80	1.80	88 -50	86	2.0

W.C.—Working capital.
*—Based on latest div. rate.
[1]—Quarter ended June 30.
[2]—24 weeks ended June 15.
[3]—26 weeks ended June 30.
[4]—Quartaer ended July 31.
[5]—Plus stock.

Champion Paper & Fibre. Earnings declined to $2.51 a share in the fiscal year ending March 31, but firm tone in book and white paper points to slightly better showing for current fiscal year. (B-3)

Container Corp. Strength in paperboard containers has kept earnings within close margin of 1957 showing. First half profit equalled 65 cents, against 74 cents a share in same period of 1957. (B-2)

Crown Zellerbach. Well-diversified producer showed good earnings gain in second quarter over the first quarter. Net per share was 54 cents against 44 cents in initial period. Second largest paper company. (A-2)

Federal Paper Board. Earnings have held close to 1957 level, with 95 cents shown for first quarter against $1.16 a share in same period of 1957, and better results expected for second half. (B-1)

Fibreboard Paper Products. Strengthened price structure on Pacific Coast should aid this producer. Sharp drop sustained in net last year. Earnings for 1958 should equal 1957 total. (B-2)

Great Northern Paper. Earnings off sharply in first half, on reduction in demand for newsprint. Eliminating profit on sale of assets, 24 weeks ended June 15 showed a net loss. (B-3)

Hammermill Paper Co. Earnings were halved in 1957, and were again cut in first half of this year for this producer of fine papers. General business upturn would bring a comeback. (B-2)

International Paper Co. World's largest producer should show gain in net profit for the third quarter over second quarter. First half net equal to $2.34 a share, against $2.94 a share for the same period of 1957. (A-2)

Kimberly-Clark. This maker of home specialties has shown great stability of earnings and should benefit from growth of its market.

Lily-Tulip-Cup. Earnings last year at $4.12 a share exceeded previous year's total, aided by new products. First half of this year, however, net was down to $1 87 a share, against $2.13 a share in the same period of last year. Earnings trend improving. (A-1)

KEY TO RATINGS: (A)—Best Grade. (B)—Good Grade. (C)—Speculative. (D)—Unattractive.
1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Statistical Data on Leading Paper Companies—(Continued)

	1st 6 Months: Net Sales 1957 — Millions —	Net Sales 1958 — Millions —	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Full Year: Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1957	Dividend Per Share 1958*	Price Range 1957-1958	Recent Price	Div. Yiela %
MEAD CORP. ....$ W.C. (mil.) '56—$30.8; '57—$38.2	94.3	$ 112.7	6.1%	4.1%	$1.50	$1.03	$3.68	$2.85	$1.60[2]	$1.60	43¾-33	42	3.8%
MINN. & ONT. PAPER .... W.C. (mil.) '56—$15.2; '57—$23.5	41.5	37.8	7.2	5.9	1.17	.88	3.01	2.37	1.60	1.60	35¾-20¾	30	5.3
OXFORD PAPER .... W.C. (mil.) '56—$16.9; '57—$16.0	30.2	29.5	5.6	4.2	1.90	1.00	5.43	3.05	2.30	1.00[2]	43 -23	33	3.0
RAYONIER .... W.C. (mil.) '56—$45.5; '57—30.7	60.0	52.0	6.4	2.2	.71	.21	2.65	1.13	1.40	.40	34⅜-14	20	2.0
ST. REGIS PAPER .... W.C. (mil.) '56—$80.4; '57—$75.6	180.8	172.3	5.7	4.5	1.24	.92	3.04	2.53	1.55	1.40	48¼-23½	40	3.5
SCOTT PAPER .... W.C. (mil.) '56—$73.3; '57—$49.3	139.4	141.6	7.7	7.6	1.34	1.35	2.78	2.68	2.00	2.00	71⅛-52	69	
STANDARD PACKAGING CORP.[3].. W.C. (mil.) '56—$4.6; '57—$17.0	17.4	17.1	6.6	6.1	.68	.62	.73	1.15	—	—	19 - 8⅞	19	—
SUTHERLAND PAPER .... W.C. (mil.) '56—$16.1; '57—$16.4	32.0	30.2	6.0	3.0	1.80	1.08	3.85	2.93	2.00	2.00	43¼-27¼	42	4.7
UN. BAG—CAMP P. CORP. .... W.C. (mil.) '56—$31.6; '57—$24.9	78.8	73.7	11.5	9.1	1.25	.93	3.02	2.49	1.50	1.20	38⅜-26¼	37	3.2
WEST VA. PULP & PAPER .... W.C. (mil.) '56—$39.8; '57—$43.2	146.5	149.5	6.7	4.5	1.85	1.26	3.19	2.31	1.60	1.60	47½-31¼	40	4.0

W.C.—Working capital.
*—Based on latest div. rate.
Note: Marathon Corp 12/3/57 sold assets to American Can Co.

[1]—9 months ended July 31.
[2]—Plus stock.
[3]—Prior to merger effective about 9/15/58 with Eastern Corp.

Mead Corp. Net in first half failed to show relative stability of recent years. Net off to $1.03 a share, against $1.50 a share in same period of 1957. (B-2)

Minnesota & Ontario. Maker of structural insulating board, this company is showing excellent recession resistant qualities, with first half net not far from 1957 level. (B-2)

Oxford Paper. Earnings in first half were down almost 50 per cent for this maker of papers for publishers and magazines and allied products.

Rayonier. Outlook is slowly improving for this pulp producer, which over expanded in 1956 and 1957. Earnings at sharply reduced level in first half. (B-3)

St. Regis. Earnings trend is gradually improving due to rigid cost cutting and slower pace of expansion. Second half net should show gain over first half's 92 cents a share. (B-2)

Scott Paper. Earnings of this maker of sanitary and household papers showed slight gain in second quarter at 69 cents a share, against 68 cents for same period of 1957. (A-1)

Standard Packaging Continuation of upward trend seen by company. Merger with Eastern Corp. and other units, to help operations. (C-2)

Sutherland Paper. Improved operations of paperboard industry should aid this company in staging improvement from first half net of only $1.08 a share.

Union Bag-Camp Paper. Maker of kraft and paper board, this company should score improvement over first half net of 93 cents a share, which was down from $1.25 a share shown in same period of 1957. (B-1)

West Virginia Pulp & Paper. Dividend recently reduced from 40 cents quarterly to 30 cents But earnings picture should improve and boost net over the 39 cents a share reports for quarter ended July 31. In same quarter of last year, earned 70 cents. (A-2)

RATINGS: (A)—Best Grade.
(B)—Good Grade.
(C)—Speculative.
(D)Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

rate moves from 90 percent to 95 percent of capacity, the gain in net profit should be substantially more than 5 percent, because production costs per ton at the 95 percent rate are less than at the lower level.

More Moderate Expenses

The paper industry has curtailed the overambitious expansion program which called originally for a boost of 8 million to 10 million tons in capacity in three or four years.

Construction of about 3 million tons of additional capacity was postponed, however, when the recession made its appearance last year. During the first half of this year, some additional capacity came into operation, creating sales and profits problems. Normally, the breaking in of a new paper mill means special costs, and these have not been avoided. In addition, the heavy costs of new capacity, and of timber reserves purchased to support future growth in paper capacity have required new financing, or have diluted earnings on the common stock. This in turn has led to more conservative dividend policies by a number of paper companies.

Since the recession began, dividends have been reduced by West Virginia Paper, St. Regis, Hammermill, Great Northern, Rayonier and other producers. It now appears that dividends are more secure than they were a year ago, because the rate is now more conservative, and also because invest-

(Please turn to page 758)

TEXTILE INDUSTRY
Prospects . . . Still Tangled

By James D. Halliday

◆ An official of one of the larger textile companies recently commented that the Red Queen must have been thinking of the textile industry when she told Alice in Wonderland that you had to run very fast around here to stand still. This observation, although presented in jest, actually is not far from the truth and reflects the tremendous competitive pressure under which the textile companies must operate. It was especially noticeable in 1957 when the textile industry turned in one of its most lack-lustre performances in the postwar period.

Recently, however, there have been signs which give rise to cautious optimism among textile men and investors alike that a turning point may not be too far off. Some of the factors contributing to this feeling are (1) an upturn in general business activity, (2) an aapparent firming of textile prices, (3) production cutbacks by the textile mills earlier this year, and (4) the low level of inventories in distribution channels. Actually these factors, of themselves, do not assure an upturn in the industry, but they provide the fuel designed to touch off an increase in demand at the consumer level. Signs of a better demand have been evident in recent weeks as cooler weather, changing styles and school openings caused a run on department and specialty store stocks. Combined with the hand-to-mouth buying of retailers and the light inventory situation, the picture looks brighter than it has for some time but it is still not clear whether this is only a temporary situation.

One thing is certain, however—the consumer has the money to spend. According to some in the industry, it is just a matter of getting people to direct an increased portion of their purchases to soft goods.

On a strictly mathematic basis, the industry's optimists have the odds on an upturn in their favor. Historically, the adjustment from the peak to the valley of the textile cycle has lasted approximately twelve months in the postwar period, while the present downtrend has been in effect since the middle of 1956. In addition, according to some statisticians, mill margins (the difference between the cost of a pound of cotton and the mill selling price of the cloth produced from it have accurately signaled changes in mill production and U. S. industrial production over the past ten years. Based on these previous patterns, mill margins recently indicated an upward movement in mill production and general industrial production. However, there are new elements in the picture, such as vigorous foreign competition, which may have impaired the accuracy of this yardstick.

The attempts of the industry to work its way out of the doldrums, of course, have not been aided by

Position of Leading Textile Companies

	1st 6 Months: Net Sales 1957	Net Sales 1958	Net Profit Margin 1957	Net Profit Margin 1958	Earned Per Share 1957	Earned Per Share 1958	Full Year: Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1957	Dividend Per Share 1958*	Price Range 1957-58	Recent Price	Div. Yield %
	— (Millions) —		%	%									
AMERICAN ENKA W.C. (mil.) '56—$14.9; '57—$14.9	$ 27.5[1]	$ 27.5[1]	2.0%	.01%	$.42[1]	$ .004[1]	$1.72	$ .93	$ .65	$ —	27⅞-13⅝	21	— %
AMERICAN VISCOSE W.C. (mil.) '56—$26.4; '57—$25.4	118.0	96.3	5.2	4	1.21	.08	2.93	1.65	2.00	1.00	44⅝-25	30	3.3
ANDERSON CLAYTON & CO. W.C. (mil.) '56—$111.1; '57—$118.8	511.3[7]	450.2[7]	2.2[7]	1.4[7]	3.52[7]	1.94[7]	3.82	4.76	2.00	2.00	50½-32½	38	5.2
BEAUNIT MILLS W.C. (mil.) '56—$26.7; '57—$29.0	24.9	20.3	4.4	1.8	.58	.16	3.00	1.61	1.50	1.00	20⅜-10⅛	14	7.1
BELDING HEMINWAY W.C. (mil.) '56—$7.5; '57—$7.4	11.8	n.a.	2.7	n.a.	.79	.36	1.10	1.20	.70	.50	13¼-10¼	13	3.8
BIGELOW-SANFORD W.C. (mil.) '56—$37.5; $57—$30.7	38.9	31.1	1.8	d5.0	.65	d1.64	2.64	.21	.75	—	15⅞- 6¾	11	—
BURLINGTON IND. W.C. (mil.) '56—$207.8; '57—218.1	502.0[3]	485.1[3]	2.1[3]	1.6[3]	1.14[3]	.80[3]	1.63	1.64	.85	.60	14¼- 9	12	5.0
CANNON MILLS W.C. (mil.) '56—$89.3; '57—$95.8	94.2	85.2	6.5	6.2	2.36	2.40	5.16	6.30	3.00	3.00	59½-45⅝	59	5.0
CELANESE CORP. W.C. (mil.) '56—$75.1; '57—$68.9	95.3	103.8	5.8	5.4	.56	.57	2.08	1.94	1.00	1.00	18⅞-10⅞	18	5.5
CLUETT PEABODY W.C. (mil.) '56—$46.0; '57—$46.9	48.4	42.2	3.2	1.6	1.55	.61	5.05	4.17	2.50	2.00	45⅙-31½	42	4.7
CONE MILLS W.C. (mil.) '56—$59.4; '57—$60.2	85.8	81.1	2.3	2.2	.56	.50	1.53	1.24	.80	.80	15½- 9	15	5.3
DAN RIVER MILLS W.C. (mil.) '56—$51.8; '57—$53.0	82.2	79.6	3.1	2.8	.56	.49	1.18	1.22	.80	.80	12⅝- 8⅝	12	6.6
FIRTH CARPET W.C. (mil.) '56—7.4; '57—$6.4	13.2	11.6	3.5	d1.3	.82	d .28	1.40	1.40	.60	.07½[5]	12⅛- 6½	9	—
INDUSTRIAL RAYON W.C. (mil.) '56—$39.1; '57—$38.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.45	.65	1.75	—	39⅛-13½	20	—
KAYSER-ROTH CORP. W.C. (mil.) '56—$21.0; '57—$19.2	n.a.	n.a.	n.a.	n.a.	.57	.64	.75	.84	[6]	—	17¼- 9¾	17	—
LEES (JAS.) & SONS W.C. (mil.) '56—$24.6; '57—$17.5	37.0	30.8	4.3	3.0	1.92	1.10	5.04	4.30	2.00	2.00	36¼-24¾	31	6.4
LOWENSTEIN (M.) W.C. (mil.) '56—$104.5; '57—$104.6	242.2	225.1	.9	.3	.81	.31	1.98	1.07	1.25	.60	22 -11	14	4.2
MOHASCO INDUST. W.C. (mil.) '56—$31.3; '57—$31.8	51.6	44.1	2.5	4.5	.38	.60	1.08	.96	—	—	11½- 4½	9	—
PEPPERELL MFG. W.C. (mil.) '56—$26.5; '57—$28.0	89.9[4]	80.9[4]	2.8[4]	2.2[4]	5.18[4]	3.79[4]	5.18	3.79	4.00	3.50	59⅞-46	55	6.3

W.C.—Working capital.
d—Deficit.
*—Based on latest div. rate.
n.a.—Not available.

1—24 weeks ended June 15.
2—First fiscal quarter ended June 30.
3—9 months ended June 30.
4—Years ended June 20.

5—No div. action taken 5/21/58.
6—Paid 8% stock.
7—6 months ended Jan. 31.

Position of Leading Textile Companies—(Continued)

	1st 6 Months: Net Sales 1957 (Millions)	Net Sales 1958 (Millions)	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Full Year: Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1957	Dividend Per Share 1958*	Price Range 1957-1958	Recent Price	Div. Yield %
RAYONIER, INC. .... W.C. (mil.) '56—$45.5; '57—$30.7	$ 60.0	$ 52.0	6.4%	2.2%	$ .71	$ .21	$2.65	$1.13	$1.40	$ .40	34⅜-14	20	2.0%
REEVES BROS. INC. .... W.C. (mil.) '56—$12.6; '57—$12.8	42.3[2]	39.5[2]	1.6[2]	.5[2]	.60	.20	1.26	.76	.50	.25	12⅜- 5⅞	9	2.7
RELIANCE MFG. CO. .... W.C. (mil.) '56—$2.12; '57—$2.44	25.4	19.6	2.5	d1.3	1.38	d.78	2.12	2.44	2.00	1.00	30 -17⅜	17	5.8
STEVENS (J. P.) & CO. .... W.C. (mil.) '56—$131.8; '57—$137.7	203.2[1]	173.7[1]	2.1[1]	1.6[1]	1.11[1]	.67[1]	2.08	2.10	1.50	1.50	24⅜-16½	23	6.5
TEXTRON, INC. .... W.C. (mil.) '56—$45.8; '57—$47.1	128.7	112.6	3.4	1.4	1.16	.32	1.58	2.25	1.15	1.00	21½- 9⅞	15	6.6
UNITED MERCH. & MFG. .... W.C. (mil.) '56—$101.2; '57—$103.1	n.a.	n.a.	n.a.	n.a.	1.18[2]	.92[2]	2.44	1.66	1.00	1.00	15¼-10⅜	14	7.1
VAN RAALTE CO. .... W.C. (mil.) '56—$12.0; '57—$12.9	13.3	12.2	5.2	3.0	1.39	.75	1.39	.75	2.00	2.00	29 -21	26	7.6

W.C.—Working capital.
***—Based on Latest dividend rate.**
n.a.—Not available.

[1]—6 mos. ended May 3.
[2]—9 mos. ended March 31.

Anderson, Clayton: Earnings of this cotton merchandiser are at relatively low levels but trading prospects are enhanced by forecast of larger cotton crop. (B-2)

American Enka. New rayon tire yarn may aid recovery from present depressed levels. Issue is speculative but asset value is substantial. Resumption of dividends over near term is questionable. (C-2)

American Viscose. Longer term prospects are favorable in view of increasing Chemstrand earnings. Dividends from latter are possibility over intermediate term. (B-3)

Beaunit Mills. Although nylon still is a major competitor in tires, production of new rayon yarn is a favorable factor. Dividends will probably hold at present rate. (C-3)

Belding Heminway. Near term outlook flat but nylon plastics may be future contributor to earnings. Earnings should cover present reduced dividend. (C-3)

Bigelow-Sanford. Low level of earnings precludes near term resumption of dividends. Absence of new plant costs should improve earnings in intermediate future. (C-3)

Burlington Industries. Company is largest in the industry and well-diversified. Latter should be an important factor in recovery prospects. Present dividend reasonably secure. (B-2)

Cannon Mills. Company has exhibited very stable earnings and dividend record for a textile company. Present rate may hold despite lower earnings but current yield is not impressive. (A-2)

Celanese Corp. Outlook is improving as chemicals become more important to operations but maintenance of present earnings rate necessitates off-setting relatively large tax credits of recent years. (B-2)

Cluett Peabody. Stretchable paper process lends appeal on a long term basis. Earnings and dividend record has been impressive but earnings temporarily depressed. (B-3)

Cone Mills. Improved operations could result from increasing emphasis on converting fabrics and synthetics. Maintenance of current dividend will depend on outlook for final quarter. (C-2)

Dan River Mills. Diversification within cotton goods fields has been accomplished through mergers in recent years and company should show good recovery on any upturn in industry. Present dividend rate may be maintained over near term. (B-2)

Firth Carpet. Upturn in housing starts may aid company to some extent but shares are highly speculative. Dividends are not an immediate prospect. (C-3)

Industrial Rayon. Outlook is dependent on operations of tire industry. Company is in very good financial condition which should enable it to weather temporary slumps. No dividends are in sight at present. (B-3)

Kayser-Roth. Roth acquisition made company a leader in hosiery field. Earnings should show some improvement but resumption of dividend payments is uncertain. (C-2)

Lees & Sons. Earnings and dividend records are impressive for a company in highly competitive carpet field. Long-standing dividend may be continued but would not consider it secure. (B-3)

M. Lowenstein & Sons. With earnings down substantially and dividend cut, company may have seen the worst. Recovery depends on upturn in industry. (B-3)

Mohasco Industries. Tax-loss credits are aiding earnings but competition in carpet field may slow recovery. No dividend in sight for common until preferred arrearages are cleared up. (C-2)

Rayonier. This chemical cellulose producer is closely tied in with tire industry. Company is rich in natural resources but earnings are very depressed. Dividends are at a nominal rate. (B-3)

Pepperell Mfg. Signs of pickup in sheets and other consumer products will aid earnings over near term. Extra dividend payment was halved but regular rate should be maintained. (B-2)

Reeves Bros. Lower earnings and sharply reduced dividend reflect effects of industry conditions. Timing recovery is difficult. (C-3)

Reliance Mfg. Increase in general business activity should benefit important work clothes line. Tax credits have been a factor in recent earnings. Stock is closely held. (C-3)

J. P. Stevens. Well-managed and well-diversified, company has had a good record and should be a prime beneficiary of any industry upturn. (B-3)

Textron, Inc. Textiles account for about one-quarter of sales. Recent earnings have been depressed but improvement is being noted along with rise in industrial business. (C-3)

United Merchants & Mfg. Robert Hall outlets provide highly integrated operation. Present dividend coverage has narrowed but rate may be maintained. (B-2)

Van Raalte. Past earnings have been well maintained in face of severe competition. Stock has merit from a yield standpoint. (B-2)

RATINGS: **A—Best grade.**
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earning trend.
2—Sustained earnings trend.
3—Lower earnings trend.
d—Deficit.

the 1957-58 recession. While the consumer remains the most important outlet for the textile companies' products in the form of apparel and household items, some 30 per cent of production is directed to the industrial field. The latter includes the automotive market which has been adversely affected by the business slowdown. In much the same manner a pickup in the economy such as we have been undergoing recently, should augur well for the textile companies. Past experience, however, has tempered the enthusiasm of some investors who have witnessed false starts and the subsequent disappointments.

Industrial Problems

One of the basic problems facing the industry is overcapacity. This dates back to World War II, when the textile companies expanded to meet the needs of the Government. In the ensuing years, higher costs and lower demand have brought pressure to bear on many of the marginal producers with a subsequent reduction in capacity. While this has mitigated the problem to some extent, excess capacity continues to exist. Indicative of the competitive factor is the estimate that about 20 per cent of industry output is accounted for by a dozen companies.

Contributing to the dilemma are foreign imports which have been substantial, amounting to over $1 billion annually in recent years. Undoubtedly, the industry has cause for its compaints against cheap foreign imports when the price of one of its basic raw materials, cotton, is subject to Government regulation. To alleviate the pressure of imports, the Government negotiated an agreement with Japan effective January 1, 1957 under which Japan limits the amount of its cotton exports to the United States. This has resulted in some improvement in the situation but it appears to be more of a stop-gap measure than a basic solution.

To add to the woes of textile companies the competitive struggle was intensified in the postwar period by the increased use of man-made fibers, especially rayon and acetate. Although diversification into synthetics by many companies in the field enabled them to meet this challenge, the artificial fibers also reflected the entry of a new competitor, the chemical company. Nylon is probably the best-known of the true chemical fibers, but the list is growing rapidly, including Orlon, Dacron, Acrilan, etc. It is interesting to note the changes which have taken place since 1946 in the consumption of natural and man-made fibers (See table). A slight downtrend has been taking place in the percentage consumption of natural fibers, while nearly all of the increase in the man-made fiber group has been accounted for by the chemical companies.

King Cotton

There is little doubt that, although the crown has slipped a little, cotton is still king. Its showing has been impressive in he face of declining per capita consumption and the loss of some substantial markets to other fibers. Per capita use was 20.4 pounds in 1957 compared with 22.6 pounds in 1956 and 26.7 pounds in 1950. One of the major markets which cotton has lost in the past ten years has been the automobile tire cord market. In 1939, cotton accounted for about 96 per cent of the fiber used in tires, while rayon was utilized only to the extent of 4 per cent. By 1947, the figures had changed to 54 per cent and 46 per cent respectively, but last year cotton usage in tires dropped to about 2 per cent, rayon increased to 77 per cent and nylon had made inroads to the extent of 21 per cent. Offsetting the losses in this and other fields—for instance, the change from cotton bags to paper bags—are such factors as the increasing popularity of cotton wash-and-wear fabrics and a trend toward casual clothes. One development which may prove to be important in the future was revealed in the recent announcement of a new process for treating ordinary cotton clothing threby transforming the garments into wash-and-wear apparel, which need little or no ironing.

Table

Per Cent of U. S. Fiber Consumption

	Natural Fibers				Synthetic Fibers		
	Cotton	Wool	Silk	Total	Acetate & Rayon	Chemical	Total
1957	65.5%	6.2%	0.1%	71.8%	19.1%	9.1%	28.2%
1956	66.9	7.0	0.1	77.0	18.5	7.5	26.0
1954	68.5	6.5	0.1	75.1	19.2	5.7	24.9
1952	69.4	7.5	0.1	77.0	19.0	4.0	23.0
1950	68.5	9.5	0.1	78.1	19.8	2.1	21.9
1946	74.2	11.4	0.1	85.7	13.5	0.8	14.3

Source: Textile Organon

For the first half of 1958 mill consumption of cotton was almost 10 per cent behind that for the similar period of last year. This, combined with lower mill margins, amounting to 24.14 cents a pound in June versus 26.81 cents a year ago, resulted in much lower cotton mill earnings. During the second quarter, however, a firming was noted in prices of grey, or unfinished, goods, which is a hopeful sign for the weavers. Another favorable factor is the recent cotton crop estimate. Based on conditions at the beginning of September, the Department of Agriculture forecast a 1958 crop some 1.1 million bales larger than that of 1957. This appears to insure a relatively low level of raw cotton prices which will aid mill margins.

Synthetic Fibers

There are two major categories of synthetic fibers (1) cellulosic, which are derived from cotton linters or wood pulp and include rayon and acetate, and (2) non-cellulosic, such as nylon, orlon, etc., which are produced from chemical raw materials.

Largely reflecting a decline of 32 per cent in production of high tenacity rayon yarn which is used in tires, total production of rayon and acetate fibers for the first half of this year were approximately 19 per cent lower than those of the corresponding period a year ago. *(Please turn to page 756)*

THE MAGAZINE OF WALL STREET
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THE EDITORS' INVESTMENT CLINIC

TECHNICAL MARKET FACTORS RESPONSIBLE FOR DISTORTING MARKET PRICES AND UPSETTING PRICE-EARNINGS RATIOS

◆ It is not surprising that a number of our subscribers have inquired about the recent tendency to evaluate stocks on their recovery earnings prospects, rather than on immediate earning power. Indeed, some of our readers have expressed concern that projecting the future may involve hazards at this time, and seem to feel that the theory of so-called "recovery earnings" may fail to meet tests that over the years have proved to be unfailing criteria of securities values.

The yardsticks of investment values—yesterday, today, and probably for all-time—include a realistic appraisal of earning power and dividend paying ability in the forseeable future. For while long term growth is important, it is also vital to recognize that the projection of earnings trends far into the future is fraught with hazards. The risks involved may prove worth taking, but it is well to bear in mind that the entire history of the stock market proves that ultimate value, as distinguished from temporary prices, is realistically based on clearly defined considerations and firmly established criteria.

Volume Vs. Profit Recovery

The question may well be asked at this time whether business will recover rapidly enough to justify the prices of many leading stocks, or whether prices of such stocks will come down to a level more consistent with immediate business prospects. At this date, the Federal Reserve Board Index of Industrial Production has recovered more than half of its decline from August 1957 to April 1958. The more sanguine prognosticators, impressed with the speed of the recovery so far, believe that business will return to last year's peak by the middle of 1959. Yet, even if we grant this optimistic assumption, the situation is still not clear enough within given industries to predict specific earnings for individual companies. For the vital element of costs varies remarkably from company to company and industry to industry.

Obviously profits represent the margin between prices and costs. If consumer resistance or competitive forces should hold down prices then rising wages and other costs might continue to act as a restraining influence on profits, at least in important segments of the economy. Nothwithstanding the resourcefulness of top management, it may prove difficut to fully overcome these influences. It is well known that the volume of business, or the level of sales does not necessarily determine earning

power. The numerous years of "profitless prosperity" in the past lend mute testimony to this point. The realistic investor, therefore—aware that the recession has corrected few of the built-in cost factors in our economy—might reasonably be inclined at this time to await definite indications of an immediate upward earnings trend, rather than hazard a guess regarding the future. It has been aptly said that a man who looks only at the horizon may stumble over things that lie at his feet.

Fear of Long Term Inflation

Today, as in the past, investors may be attracted by the siren-song that "conditions have changed"—"the old yardsticks no longer apply"—"this is a new era—etc." At the moment this thought is most often expressed in the form of belief (or fear) that we are in a period of long term "inflation." The notion is not new. In the unlikely year 1936 it was just as prevalent as it is today. But even if it is true, the fact remains that earning power and dividend paying ability of corporations would still be the determinants of market value. To prove the point, it need only be pointed out that 40% of the stocks traded on the New York Stock Exchange are no higher in price today than they were in 1946. The reason is apparent from the fact that although Gross National Product has increased almost 50 per cent since 1950, corporate profits through the end of 1957 have receded by 4 per cent. Obviously, the laggards account for a good share of the decline in profits—and reaped no benefit from the inflationary era we have been passing through.

Influence of Funds

Too many are influenced in their buying of securities by the technical position of the market, which is often distorted by institutional buyers who have enormous funds continuously available for investment. The buying by pension funds, investment trusts and institutions has reached enormous proportions, and they are continuously on both sides of the market, buying and selling in order to balance their position.

The recent sharp advances in the market have come during a time when large new investment trusts have been organized, and with the vast capital raised through sale of their shares to the public they have made heavy purchases which have added fuel to the advance in an extremely thin stock market.

Since these funds to a large extent confine their purchases to the better-known stocks, or so-called "blue-chip" issues, there has been every indication for some time past that the activities of these funds have been a key influence, tending to support the price of leading stocks in declining markets, as well as to raise the prices of such issues in advancing markets. The powerful "professional" element in the stock market today is the institutional buyer.

Another element which is distorting the market is the many secondary offerings of large blocks of stock which are sold off the market to private buyers and which do not show up under sales on the New York Stock Exchange.

Thus although the earnings and prospects for a company are the only sound bases for investment evaluation, these factors have been partly circumvented by the artificial influences which are moving prices, and which have no relation to corporate values. This makes it doubly necessary to ignore the so-called averages, which do not tell the story, and examine the position of the individual stocks. This has been proven to be the right method in all previous periods of market extremes and excessive speculation.

An interesting example is to be found in the fact that one of the important investment houses ran an advertisement in our publication in the '20's, just before the market break, offering to buy a long list of stocks at the highest prevailing prices, and which proved to be the historical tops to date, showing how a strongly advancing market carries even professionals away.

To illustrate our viewpoint we have selected some representative issues, using not only the earnings figures but also the various special characteristics that must be considered in connection with each industry and which influences the price-earnings ratio at which stocks should sell.

Leading Stocks as Examples

At its current price, **General Electric** is selling at about 28 times estimated 1958 earnings, if we allow for a modest profits recovery in the fourth quarter of the year. Now, General Electric is not the typical company, since it turns out a multitude of diverse products and has a stake in several important industries. Yet over the last twenty years or so the market's evaluation of its future earnings has fluctuated widely. At its 1957 peak, with earnings better than they are today, the stock sold at 25 times earnings—but in 1953, when hindsight tells us the GE's prospects were exceptionally bright, it sold at only 11.5 times earnings. Moreover, in 1937 at its high before the sharp break of that year GE sold at 30 times earnings.

Over the years GE's multi-product business has generated substantial earnings and the value of the stock has appreciated accordingly—but it has gained in value in relation to its actual earnings growth, and not in terms of the widely fluctuating evaluation of its future that the above figures demonstrate. It cannot be emphasized enough that the market price of the moment does not establish value—only performance and the real growth of earnings, dividends and assets can do that.

A case in point is **Aluminum Co. Of America,** whose fortunes are tied to one industry which in turn depends on activity throughout a multitude of industries for its stimuli. In 1937, and again in 1953 when the long-range outlook for aluminum demand was much more hopeful than it is today Alcoa's stock was appraised at 13 times and 7.5 time earnings, respectively. Yet today, after three years of declining earnings—tremendous current overcapacity—and weakness throughout the entire metals segment of the economy, the stock is selling at about 46 times estimated 1958 earnings and 23 times peak 1957 profits. Considering the earnings performance over the last few years, buyers of the stock—who accepted yields as low as 1.2 per cent in exchange for future *(Please turn to page 758)*

FOR PROFIT AND INCOME

The Stocks In The Dow

Right or wrong, investors and speculators look ahead, not behind. It is improbable that many have paid or will pay much attention to the theoretical "supply levels" represented by past highs in the stock averages. Of course, they buy stocks, not the average. Whatever the level of any average at any time, the stocks in it are at widely varying levels. The triple tops registered by the Dow industrial average around the 520-521 level in April and August, 1956, and July, 1957, could be called largely a matter of happenstance. Not a single one of the 30 stocks in the average made triple tops at those points. One made a high top as far back as 1951, a much lower top in 1956. Two made tops in 1954; six in 1955; nine in either April or August, 1956; one in December, 1956: one in January, 1957; ten in July, 1957.

Where They Stand

The following stocks in the Dow average have risen importantly above the earlier highs: Corn Products, Eastman Kodak, General Foods, Procter & Gamble and U. S. Steel — three "conservative" issues, one growth stock, one cyclical stock. The following are well under their prior highs: Allied Chemical, American Smelting, Chrysler, duPont, General Motors, International Harvester, International Nickel, International Paper, Johns-Manville, National Distillers, National Steel, Sears, Standard Oil of California, Standard Oil (New Jersey), Union Carbide, United Aircraft and Westinghouse Electric. The levels of the others range from little above to little below prior tops. This is an exciting market — in some stocks; not so exciting in others.

Group Variations

Stocks groups performing better than average at this writing include: air transport, automobiles, auto parts, drugs, electrical equipment, metal fabricating, office equipment, radio-television, department stores, food stores, shipbuilding, steel and tires. Among those currently faring

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Columbia Gas System	6 mos. June 30	$1.11	$ .93
Texas Instruments	6 mos. June 30	.66	.52
Vick Chemical	Year June 30	5.01	3.89
Zenith Radio	Quar. June 30	.97	.76
Spiegel, Inc.	6 mos. June 30	.65	.21
American Stores Co.	Quar. June 28	1.60	1.34
Duquesne Light	6 mos. June 30	1.45	1.32
Edison Bros. Stores	6 mos. June 30	1.57	1.40
Idaho Power	6 mos. June 30	1.36	1.03
Louisville Gas & Elec.	6 mos. June 30	1.31	.97

less well are: aluminum, building materials, coal, coppers, meat packing, farm machinery, movies, oils, natural gas, electric utilities.

Valuation

Not since the "New Era" dream blew up in 1929 has so little emphasis been put on current price-earnings ratios and dividend yields. The idea in 1929 was to get rich quick on margin buying — so disenchantment came fast at great cost. It is different now. The idea is to buy stocks for the long pull, regardless of price; and just wait for growth and inflation to pile up the capital gains. There is no chance of sudden disaster in this policy — but disenchantment no doubt is ahead as investors discover that this market rise has run too far ahead of the supporting facts; and that, in terms of actual rewards, "long pull" is a great deal longer than many had imagined.

Illustration

For example, Minnesota Mining & Mfg. is among the most popular of the growth stocks. Around 96, it is priced at 41 times record 1957 earnings of $2.34 a share and in the vicinity of 45 times likely lower 1958 earnings, to yield not much over 1.2% on a $1.20 dividend. Growth in ten years through 1957 averaged roughly 16 cents a share annually in profits, and little over nine cents in dividends. Where growth has been much above average and a company is "up there", the odds are probably better than two to one that future progress will be at a slowing rate. But assume that in this instance the prior growth rate will be maintained. If so, earnings *ten years* from now would be around $3.95 a share, dividends perhaps at $2.15. On that quite possibly optimistic projection, the stock is priced at over 24 times *1967* earnings, to yield, at present level, around 2.3% on 1967 dividends. Regardless of variations in the arithmetic, generally similar projections are indicated for many other popular growth stocks.

Drugs

Those who have heretofore taken profits in drug stocks now regret it, since most issues have risen considerably further and remain in above-average demand. The term "drug stocks" is a broad one. It applies, in varying degrees, to makers of ethical drugs, proprietary drugs and other proprietary products, including toiletries and cosmetics. It is generally a thriving and promising field. Potentials for research and development in ethical drugs apparently remain at least as broad as those in the chemical field; and prospects for proprietary lines at least as good as those for consumer income and spending. Despite prior advance, the stocks are priced lower than the average chemical stock, and not out of line with the general industrial list. On what might be an optimum profit estimate, the Dow industrial average is at a level perhaps around 17 times 1958 earnings. Comparable rounded-out figures are 15 times for Warner-Lambert, 16 for Bristol-Myers and Parke Davis, 17 for Pfizer. If long-pull "growth-inflation" buying makes sense, it still makes more sense in these, and other selected, drug equities than in most other stock groups.

Chemicals

As we have pointed out before, profits of most chemical companies over the last five years or more have not compared as favorably with those on the Dow industrial average as many investors imagine. We continue to think that future profit growth will be less dynamic than the market is allowing for. But earnings certainly can be expected to rise materially above the reduced 1958 levels in the course of a full business recovery; and, whether adequately founded or not, chemicals probably will retain an above-average investment popularity. On this reasoning, our present preferences on a longer-range basis are American Potash and Hooker Chemical among the secondary companies; and Allied Chemical and Dow Chemical among the major concerns.

Automobiles

A material gain, but no boom, in 1959 automobile sales seems likely; and the management consensus of a 5.5 million car year must be taken with reserve. The fact is that nobody can say to what extent the poor 1958 year is due to business recession or to public disenchantment with the cars being offered. Business is getting better, but the 1959 cars will be pretty much the same as the 1958's in general characteristics. It remains our view that market potentials in the leading auto stocks are below average.

Addenda

Some possibilities for stock splits in the course of the present cycle of business progress — which is to say within anywhere from the medium term to several years — were cited here two weeks ago. Here are a few other possibilities: Eastman Kodak, Firestone Tire, Florida Power & Light, Pfizer and Reynolds Tobacco. For Reynolds, if it came, it would be the first split in nearly 30 years. All of the others have been split at least once at varying times during the postwar (since 1946) era.

Epitome?

A brokerage firm study refers to Union Carbide as the "epitome" of growth. Well, gilding

(Please turn to page 764)

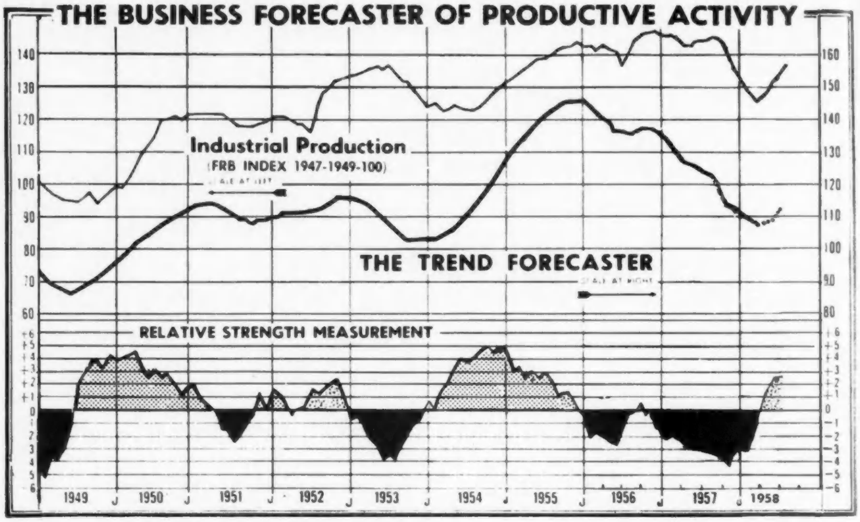
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
General Precision Equip.	6 mos. June 30	$ .16	$2.10
Grumman Aircraft Engineering	6 mos. June 30	.47	.97
Pittsburgh Coke & Chemical	Quar. June 30	.11	.55
Aluminium Ltd.	Quar. June 30	.17	.39
Honolulu Oil Corp.	Quar. June 30	.58	1.01
International Nickel Co.	Quar. June 30	.63	1.51
Phelps Dodge Corp.	6 mos. June 30	1.36	2.79
Decca Records	6 mos. June 30	.05	1.08
Standard Rwy. Equip. Mfg.	6 mos. June 30	.40	1.69
Texas Gulf Producing	6 mos. June 30	.40	.91

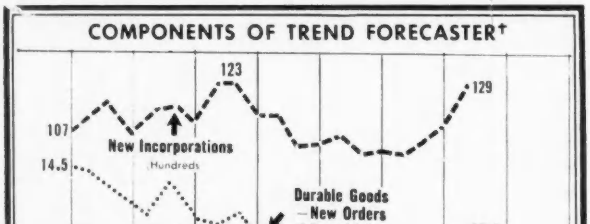
the Business

Business Trend Forecaster *

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.



***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

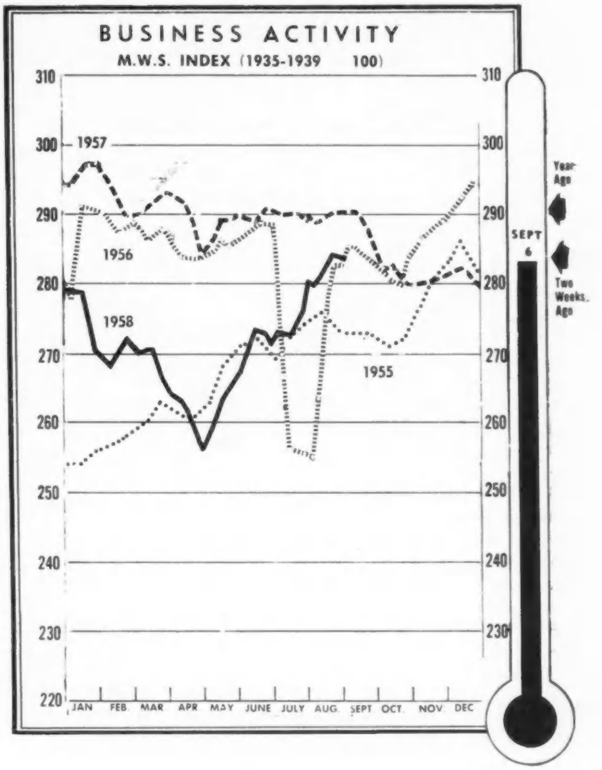
We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In the third quarter, the components of the Trend Forecaster have performed with considerable strength. New incorporations have turned sharply upward. Stock prices have gained persistently and rapidly. Housing starts have recovered to about the best level in over two years. Average hours worked and new orders in durables industries have advanced steadily, although more slowly than some of the others. Commodity prices have also advanced moderately, and business failures have at least stabilized.

Reflecting these strengthening trends in the components, the Relative Strength Measurement has moved strongly into the positive area, and is in the neighborhood of the plus three value that is indicative of general cyclical recovery. The uptrend in this measure now clearly forecasts continued advance in general measures of economic activity throughout the remainder of 1958 and into early 1959. Continuation of the rise in the indicators would warrant the conclusion that current business improvement is the prelude to a full-fledged recovery.

Analyst



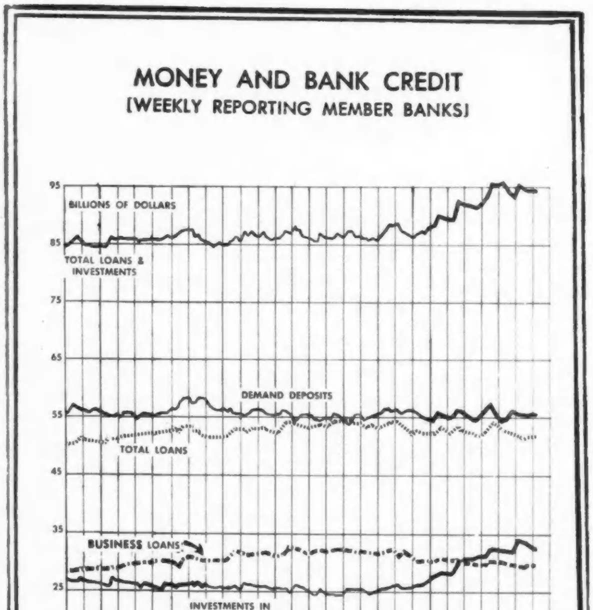
CONCLUSIONS IN BRIEF

PRODUCTION—rose further in August, despite the sharp decline in automotive output. In September and October, as auto production increases, further rises in industrial activity and employment should be expected. Thereafter, the rate of gain will slow.

TRADE—Excellent volume now prevails in most retail lines, and business should continue to improve through the remainder of 1958, and into 1959. Soft goods still enjoying better demand than hard goods.

MONEY AND CREDIT—tightening continues, and rates continue to rise. Federal Reserve maintains policy of mild restraint, forcing short-term rates up, while long-term rates now hold about stable. Further slow but general rise in borrowing costs probable in the rest of 1958.

COMMODITIES—mild strengthening in industrial commodities is offsetting continuing weakness in farm commodities which reflect record and near-record crops. This criss-cross pattern is likely to continue throughout 1958; by early 1959, strength in fnished goods prices is likely to appear, and carry price indexes up a bit.



AS of late September, it is probably accurate to say that inflation has clearly replaced recession as the over-riding economic subject. In the thoughts of businessmen and the concern of legislators, the probable behavior of the American price level in the next eighteen months now carries greater import than the figures on unemployment, or the still rather depressed rate of production in many major industries.

How real is this spectre of inflation? The answer must be that it is real enough to justify national concern. The ingredients of this concern are multiple. In the first place, the national government's prospective deficit, recalculated by the Budget Bureau in a document released this week, is likely to approximate $12 billion. This means that the Federal Government will have to borrow that much in new money over the coming several quarters to finance its operation. This federal borrowing would not, of course, be inflationary if there were enough individuals or businesses who were interested in saving heavily and rapidly. The trouble is that such a net saving level on the part of the private sector is quite unlikely; in fact, the private sector is likely to engage in quite a bit of borrowing of its own.

Borrowing in the form of mortgage debt creation is already well advanced in the housing market, for example. And the possible resurgence of automobile demand—even a moderate recovery, in fact—would involve a new round of growth in outstanding instalment debt of indivduals. At the same time, it seems probable that business will wish to augment its inventories somewhat, and this is a form of investment that often involves borrowing.

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Aug.	137	134	145
Durable Goods Mfr.	1947-'9-100	Aug.	144	141	163
Nondurable Goods Mfr.	1947-'9-100	Aug.	134	132	132
Mining	1947-'9-100	Aug.	119	115	129
RETAIL SALES*	$ Billions	Aug.	16.9	16.7	17.0
Durable Goods	$ Billions	Aug.	5.3	5.2	5.7
Nondurable Goods	$ Billions	Aug.	11.6	11.5	11.3
Dep't Store Sales	1947-'9-100	Aug.	148	140	144
MANUFACTURERS'					
New Orders—Total*	$ Billions	July	26.3	25.8	27.3
Durable Goods	$ Billions	July	12.4	12.3	13.0
Nondurable Goods	$ Billions	July	13.9	13.5	14.3
Shipments*	$ Billions	July	26.3	25.7	29.0
Durable Goods	$ Billions	July	12.4	12.1	14.6
Nondurable Goods	$ Billions	July	13.9	13.7	14.5
BUSINESS INVENTORIES, END MO.*	$ Billions	July	85.9	86.4	91.0
Manufacturers'	$ Billions	July	49.8	50.2	54.1
Wholesalers'	$ Billions	July	12.1	12.1	12.7
Retailers'	$ Billions	July	24.0	24.1	24.1
Dept. Store Stocks	1947-'9-100	July	148	148	154
CONSTRUCTION TOTAL	$ Billions	Aug.	4.8	4.6	4.7
Private	$ Billions	Aug.	3.2	3.1	3.2
Residential	$ Billions	Aug.	1.7	1.6	1.6
All Other	$ Billions	Aug.	1.5	1.5	1.6
Housing Starts*—a	Thousands	July	1160	1090	1015
Contract Awards, Residential—b	$ Millions	July	1557	1364	1287
All Other—b	$ Millions	July	2051	2455	1614
EMPLOYMENT					
Total Civilian	Millions	Aug.	65.4	65.2	66.4
Non-Farm	Millions	Aug.	50.5	50.2	52.5
Government	Millions	Aug.	7.6	7.7	7.4
Trade	Millions	Aug.	11.0	11.0	11.2
Factory	Millions	Aug.	11.7	11.4	13.0
Hours Worked	Hours	Aug.	39.4	39.2	40.0
Hourly Earnings	Dollars	Aug.	2.12	2.13	2.07
Weekly Earnings	Dollars	Aug.	83.53	83.50	82.80
PERSONAL INCOME*	$ Billions	Aug.	356	359	352
Wages & Salaries	$ Billions	Aug.	238	242	241
Proprietors' Incomes	$ Billions	Aug.	56	56	56
Interest & Dividends	$ Billions	Aug.	32	32	32
Transfer Payments	$ Billions	Aug.	27	27	22
Farm Income	$ Billions	Aug.	17	17	16
CONSUMER PRICES	1947-'9-100	July	123.9	123.7	120.8
Food	1947-'9-100	July	121.7	121.6	117.4
Clothing	1947-'9-100	July	106.7	106.7	106.5
Housing	1947-'9-100	July	127.7	127.8	125.5
MONEY & CREDIT					
All Demand Deposits*	$ Billions	July	109.6	107.4	108.0
Bank Debits*—g	$ Billions	July	84.0	81.6	84.8
Business Loans Outstanding—c	$ Billions	July	29.5	30.4	31.7
Instalment Credit Extended*	$ Billions	July	3.3	3.3	3.6
Instalment Credit Repaid*	$ Billions	July	3.4	3.4	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	July	2.9	10.8	3.1
Budget Expenditures	$ Billions	July	6.6	6.6	6.3
Defense Expenditures	$ Billions	July	3.7	4.2	3.6
Surplus (Def) cum from 7/1	$ Billions	July	(3.7)	(2.8)	(3.3)

PRESENT POSITION AND OUTLOOK

If the total demand for funds becomes excessive, the Federal Reserve can, of course, restrict the rate of growth of bank reserves. But if it does, it drives up interest rates, and thereby charges the Treasury, which is the world's biggest borrower, a very heavy penalty in the form of interest costs. If, on the other hand, the Federal Reserve allows enough growth in bank reserves to accommodate the Treasury's needs, some general increase in money supply is inevitable, with accompanying inflationary pressures. At the moment, one can hardly deny that such pressures are likely to appear in 1959.

* * *

THE GROSS NATIONAL PRODUCT—official figures for the third quarter will not be available for another month, but the broad outline of these key business statistics is already clear.

Total gross product has evidently risen sharply from the $429 billion rate of the second quarter. Spending by consumers has evidently risen by about $4 billion — $1 billion in services, $1 billion in durable goods, and $2 billion in soft goods. Moreover, the rate of residential building has risen by over $1 billion; and business demand for inventory has increased by perhaps $3 billion. On top of all this, government spending for goods and services has climbed another $1-$2 billion. Thus, total national output has risen by close to $10 billion; the third-quarter rate, when it is announced, will approximate $439 billion. This is only about $6 billion short of the all-time peak set in the third quarter of 1957.

* * *

EMPLOYMENT AND UNEMPLOYMENT—these are still among the weaker statistics on the business scene. In August, employment rose somewhat, but not much better than seasonally. Unemployment declined substantially, but then it usually does at this time of the year. The result: a stand-off. As a percentage of the labor force, unemployment still stands at about 7.6%, on a seasonally adjusted basis; this is about the highest point in the postwar years.

* * *

THE PRICE TREND—remains one of the imponderables in the business outlook. Present improvement along

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 II Quarter	1958 I Quarter	1957 IV Quarter	1957 II Quarter
GROSS NATIONAL PRODUCT	429.0	425.8	438.9	441.2
Personal Consumption	288.3	286.2	287.2	282.5
Private Domestic Invest.	49.2	49.6	61.5	67.0
Net Foreign Investment	0.5	0.5	1.9	4.2
Government Purchases	90.9	89.5	88.3	87.5
Federal	51.9	50.9	50.5	51.5
State & Local	39.1	38.6	37.8	36.0
PERSONAL INCOME	349.8	347.3	349.7	348.4
Tax & Nontax Payments	42.3	42.3	43.0	42.7
Disposable Income	307.5	305.0	306.8	305.7
Consumption Expenditures	288.3	286.2	287.2	282.5
Personal Saving—d	19.2	18.8	19.6	7.6
CORPORATE PRE-TAX PROFITS	—	31.7	39.9	43.5
Corporate Taxes	—	16.1	19.9	21.7
Corporate Net Profit	—	15.5	20.0	21.8
Dividend Payments	—	12.5	12.0	12.6
Retained Earnings	—	3.0	8.0	9.2
PLANT & EQUIPMENT OUTLAYS	30.3	32.4	36.2	37.0

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Sept. 6	283.9	283.9	290.9
MWS Index—per capita*	1935-'9-100	Sept. 6	211.9	211.9	221.0
Steel Production	% of Capacity	Sept. 13	65.4	61.7	81.9
Auto and Truck Production	Thousands	Sept. 13	31	18	105
Paperboard Production	Thousand Tons	Sept. 6	219	308	215
Paperboard New Orders	Thousand Tons	Sept. 6	316	299	339
Electric Power Output*	1947-'49-100	Sept. 6	235.9	228.6	230.0
Freight Carloadings	Thousand Cars	Sept. 6	563	645	646
Engineering Constr. Awards	$ Millions	Sept. 11	361	284	262
Department Store Sales	1947-'9-100	Sept. 6	123	149	121
Demand Deposits—c	$ Billions	Sept. 3	55.4	55.8	54.4
Business Failures	Number	Sept. 3	191	246	208

PRESENT POSITION AND OUTLOOK

a broad range of demand obviously suggests some strengthening in prices of finished goods, and it is a pretty good bet that such strength will begin to emerge before long. On the other hand, prices of the crucially important nonferrous metals that find their way into so many products and processes, are in very abundant world supply, and are hardly likely to rise importantly, barring new stockpilling or international price-support agreements. Many of the more important agricultural products are also in a world surplus position, and it is hard to see their prices advancing under such heavy supply.

Between the prices of raw materials and the prices of finished goods, however, lies the price of labor. And there is virtually unanimous agreement that wage rates will continue to rise, in fact more rapidly than in 1958. Observers particularly note the general reopening of the 3-year wage agreement reached in the steel industry after the 1956 strike, and argue cogently that the steelworkers will be out to beat whatever settlement Reuther's auto workers get in 1958. Given an uptrend in wages, it of course makes sense to expect little strength in raw materials prices and a sharp advance in finished goods prices at the same time.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958 High	Range Low	1958 Sept. 5	1958 Sept. 12
300 Combined Average	367.6	283.9	364.0	367.6H
4 Agricultural Implements	307.4	196.5	298.3	307.4H
3 Air Cond. ('53 Cl.—100)	107.6	87.8	107.6	107.6
9 Aircraft ('27 Cl.—100)	1208.1	982.2	1178.6	1178.6
7 Airlines ('27 Cl.—100)	869.5	638.8	839.9	834.0
4 Aluminum ('53 Cl.—100)	354.8	253.4	347.2	347.2
6 Amusements	173.7	125.0	173.7	173.7
8 Automobile Accessories	367.3	298.9	361.6	367.3H
6 Automobiles	61.7	40.8	61.7	61.3
4 Baking ('26 Cl.—100)	35.4	28.5	34.9	35.4H
4 Business Machines	1105.5	898.2	1079.6	1105.5H
6 Chemicals	643.3	509.5	622.7	643.3H
5 Coal Mining	24.7	18.4	24.7	24.7
4 Communications	126.8	85.7	126.0	126.8H
9 Construction	136.8	107.5	135.7	136.8H
7 Containers	947.6	707.3	947.6	947.6
7 Copper Mining	239.5	184.6	232.2	235.8
2 Dairy Products	138.5	115.6	136.3	138.5H
6 Department Stores	104.4	78.9	102.9	104.4H
5 Drugs-Eth. ('53 Cl.—100)	336.4	217.2	320.0	336.4H
6 Elec. Eqp. ('53 Cl.—100)	235.7	195.8	231.9	235.7H
2 Finance Companies	724.9	568.8	691.4	680.3
6 Food Brands	363.2	255.5	350.7	363.2H
3 Food Stores	255.1	182.2	255.1	253.3

(Nov. 14, 1936 Cl.—100)	High	Low	Sept. 5	Sept. 12
100 High Priced Stocks	238.2	189.7	235.2	238.2H
100 Low Priced Stocks	459.4	334.7	453.6	459.4H
5 Gold Mining	772.5	530.5	726.2	700.4
4 Investment Trusts	174.6	144.4	171.9	173.3
3 Liquor ('27 Cl.—100)	1271.6	913.4	1208.9	1271.6H
8 Machinery	416.0	343.8	409.1	412.6
3 Mail Order	216.3	143.3	212.3	215.0
4 Meat Packing	181.1	123.6	181.1	177.7
5 Metal Fabr. ('53 Cl.—100)	167.9	138.1	166.5	167.9H
9 Metals, Miscellaneous	339.4	278.3	328.9	331.5
4 Paper	1069.1	841.8	1069.1	1069.1
22 Petroleum	822.5	629.7	790.4	784.0
21 Public Utilities	307.6	258.9	299.9	299.9
7 Railroad Equipment	80.0	59.2	77.3	77.3
20 Railroads	60.0	43.0	59.2	60.0H
3 Soft Drinks	550.5	445.6	541.8	541.8
12 Steel & Iron	340.4	249.3	328.4	340.4H
4 Sugar	141.3	102.8	139.3	141.3H
2 Sulphur	785.5	543.4	742.4	747.8
10 TV & Radio ('27 Cl.—100)	45.7	28.8	43.8	45.7H
5 Textiles	133.4	106.9	133.4	134.4H
3 Tires & Rubber	182.5	142.3	181.0	182.5H
5 Tobacco	149.2	110.9	149.2	148.2
2 Variety Stores	300.7	239.3	298.5	300.7
17 Unclassif'd ('49 Cl.—100)	196.2	145.4	193.5	196.2H

H—New High for 1958.

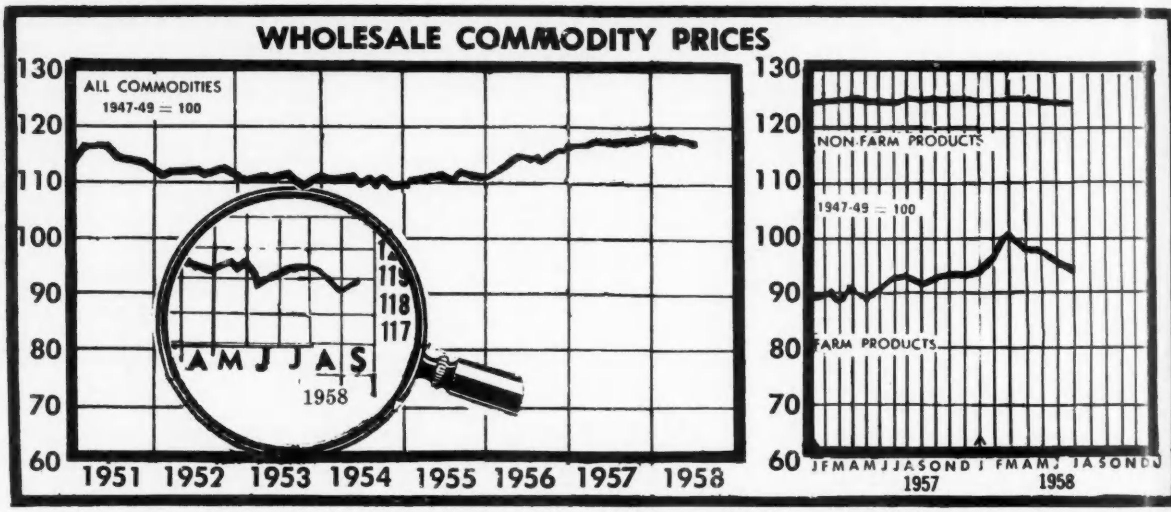
Trend of Commodities

SPOT MARKETS—Sensitive commodities continued to retreat somewhat in the two weeks ending September 12. The BLS daily price index of 22 such commodities fell 0.5% in the period under review, with foodstuffs off by 0.8% while raw industrial materials remained unchanged. In the latter category, metals were slightly higher, while textiles and fibers lost a little ground.

Meanwhile, comprehensive price indexes, such as the BLS weekly index of wholesale prices, firmed somewhat in early September. Higher quotations for farm products supplied most of the impetus, enabling the average to add 0.2 % in the two weeks ending September 9. The index of all other commodities was little changed, and still showed no signs of inflationary pressures.

FUTURES MARKETS—Futures prices followed divergent trends in the two weeks ending September 12. Grains, soybeans, cocoa and coffee were lower during the period while cotton and wool tops improved, and metals were strong.

Wheat prices were mixed, the near months managing small gains while later deliveries were somewhat lower. December wheat, at its September 12 close of $1.93, was unchanged from two weeks earlier. Record amounts of wheat are being placed in the Government support program, 238 million bushels going into the loan through August 25. In all of last season, only 256 million bushels were impounded. If prices remain low, more and more wheat will go into the loan, and this could cause an eventual shortage of "free" supplies as the end of the season approaches.



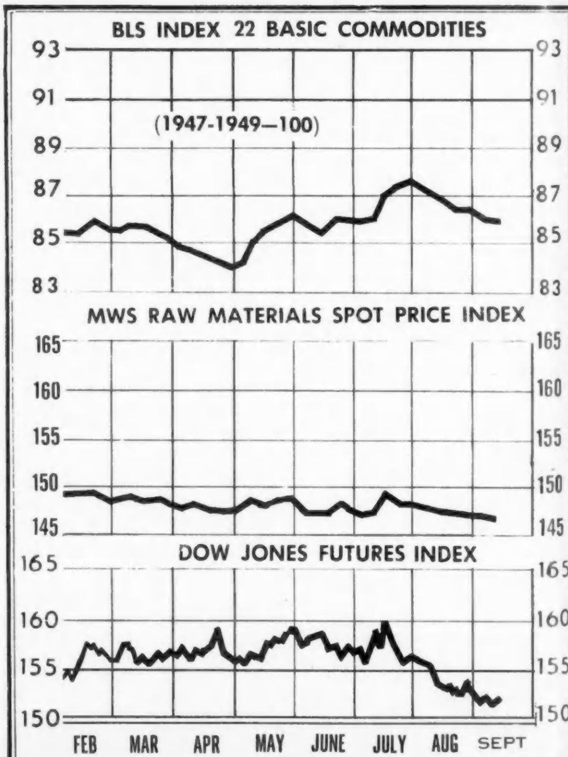
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Sept. 9	119.0	118.7	118.0	60.2
Farm Products	Sept. 9	93.4	92.5	91.0	51.0
Non-Farm Products	Sept. 9	126.0	125.9	126.0	67.0
22 Sensitive Commodities	Sept. 12	86.1	86.5	87.6	53.0
9 Foods	Sept. 12	86.3	87.0	84.6	46.5
13 Raw Ind'l. Materials	Sept. 12	85.9	85.9	89.4	58.3
5 Metals	Sept. 12	91.0	90.6	96.8	54.6
4 Textiles	Sept. 12	77.8	78.0	80.8	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1958	1957	1953	1951	1945	1941
High of Year	150.2	166.3	162.2	215.4	98.9	85.7
Low of Year	146.9	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	159.0	163.4	166.5	214.5	106.4	84.6
Low of Year	151.7	153.8	166.8	189.4	105.9	84.1
Close of Year		156.5	147.9	176.4	96.7	74.3



Where Dividend Improvement is Now Indicated

(*Continued from page* 738)

dividend rates. Looking into 1959, the outlook is for higher earnings especially for the first half as compared with the poor results of early 1958. Demand for steel from the automobile and building industries and from the road program could make next year a truly profitable one for this 'prince or pauper' industry. Bethlehem Steel, the largest factor in shipbuilding, will receive additional impetus from the recently announced naval ship construction program.

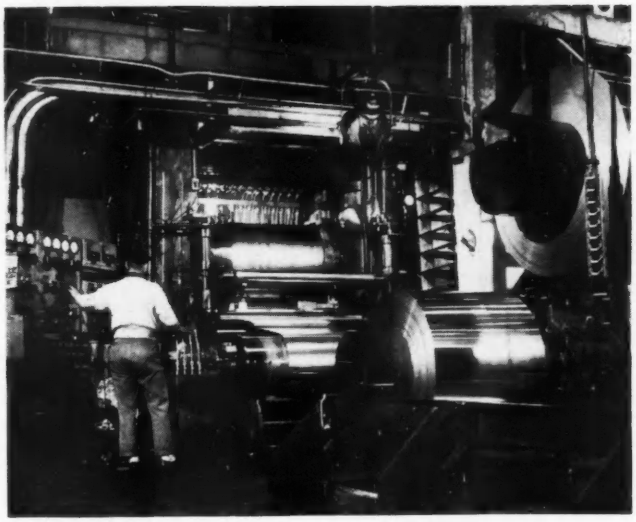
Even Chemical Dividends Were In Doubt

It is unusual for owners of chemical issues to have to feel any concern as to the safety and continued maintenance of the dividend rate. This is due primarily to the fact that for the most part earnings of these growth companies have been increasing from year to year and also further protection is afforded because the payout on the average is below that of other industries. Furthermore, because of the growth characteristics, yields are low and chemical equities do not represent attractive media for those seeking income. However, owners of **Union Carbide** shares were quite naturally concerned when earnings for the final quarter of 1957 provided just bare coverage for the 90c quarterly dividend rate, a concern which was intensified when the results for the first quarter this year were released. Earnings per share of 76c fell below the dividend requirements for the period and were the lowest for any 3-month period since 1954. While the improvement shown in the June quarter was only moderate, it does seem now as if the present rate should be maintained. Some further shelter is provided by the cash flow as depreciation and amortization charges alone this year will equal $4 a share.

Special Earnings Stimuli

Additional protection for a current dividend rate is not always provided by an earnings improvement stemming from recovery conditions in a particular industry. Sometimes there are important new developments which promise an earnings potential over and above the company's normal earning power. Such a situation was the development by **Bell & Howell** of the electric eye movie camera giving it a decided competitive lead which was fairly rapidly translated into higher profits.

Now, two indirectly related companies may be in a position to raise their earnings level substan-



WRAP IT IN MIRRORS. Miles of aluminum foil for everything from heat-'n-eat meals to insulation and car radiators roll from Kaiser's new integrated aluminum plant at Ravenswood, West Virginia. It is one of over 115 aluminum foil mills built by Blaw-Knox.

tially from the development of a new rocket and rocket fuel. The dividend on **Bell Aircraft** stock was trimmed last May from the usual 50c semi-annual payment to 35c per share but this is no longer reflected in the price of the stock, which had a burst of activity recently. This was the result of an announcement that Bell had successfully tested a rocket using liquid fluoride as an oxidizer instead of liquid oxygen; it was claimed that this would increase thrust by as much as 40%. The breakthrough could be important as it has been our inability to increase rocket thrust which has given the Soviets a commanding lead in this field. Almost concurrent with this announcement was the press release from **Pennsalt Chemicals** that they had developed the new rocket fuel oxidizer which had important advantages in storage, stability and superior performance. As, in addition to these romantic developments, earnings of both of these companies for the second quarter of this year are higher than for the March quarter, providing more adequate coverage to their current dividend rates, it would seem advisable to retain these issues awaiting the third quarter results rather than dispose of them just because the dividend rate was recently in jeopardy.

If we appear to have stressed the revival in the automobile, building and steel industries it is because these, being cyclical in nature, were the first to feel the effects of the recession and conversely should be the first to recover. Itmust be remembered that the comparatively short lived, albeit severe, recession did not affect the dividend paying ability of many of the more stable segments of our economy. The food and retail trade groups, while there was some impairment of earnings late in 1957 and early 1958, maintained and, in some cases, even increased dividend outlays. The electrical equipment companies, formerly more vulnerable to dips in the business trend, were able to earn enough to continue established rates. The long drawn out depression in the textile industry is showing some signs of lessening but the trend is not definite enough to expect any great flood of dividend increases or resumptions.

In other fields some companies are demonstrating revived earning power even though others in the industry are still suffering. For instance, the auto accessory suppliers have not as yet benefitted to any great extent from demand for parts for the 1959 model cars but **Electric Auto-lite** showed improved year-to-year comparisons in the June quarter versus the March period. In the still depressed machine tool industry (there are some straws in the wind that the worst may be over) **Ex-Cell-O Corp.** narrowed the gap between the preceding year's figures in the second quarter and an even better showing is expected for the second half of 1958.

In the accompanying tables we list companies which in recent months either reduced their dividends or maintained them in the face of declining earnings . . . but which now are showing evidence of improved revenues. They are likely to be among the first to recover sufficient earning power to either restore cuts or maintain current rates which have been threatened by a period of declining earnings. On balance, it now seems evident that the total dividend disbursements by corporations in 1958 will not fall too far short of the record payments made in 1957. END

Textile Industry Prospects

(Continued from page 745)

Acetate yarn alone, however, scored a gain of 7 per cent largely due to increased usage in home furnishing fabrics and women's crepe and chiffon apparel.

The most impressive gains are being made in the non-cellulosic group. In the years 1954 through 1957 production of such fibers totaled 285,379,400 and 516 million pounds, respectively. The first drop on a quarter-to-quarter basis since the first quarter of 1956 was noted in the first three months of this year due, in part, to a relatively sharp drop in nylon production. However, aided by improved operations of du Pont and Chemstrand, both large producers of nylon, second quarter output of non-cellulosics was some 11 per cent above the preceding period.

The extent to which synthetics hope to capture a larger portion of the market for textiles is indicated in the projected capacity figures for next year and beyond.

Present capacity of synthetic fibers other than rayon and acetate is estimated at 765 million pounds and this is expected to increase by 17 per cent next year.

Earnings and Dividend Outlook

Earnings of the leading textile and apparel companies for the first half of this year declined 47% from the similar 1957 period with the June quarter exhibiting a 19 per cent drop from the preceding March quarter. The factors contributing to these unimpressive results were lower volume, caused by both reduced demand and lower prices, and narrowing margins, the smallest in the post war period. In many cases, the textile companies were forced to decrease, or omit dividend payments entirely. It is estimated that stockholders received about 10 per cent less in the first half than they did in the corresponding 1957 period.

While it is interesting to look back at what has happened in the industry, the most important question is, "Where do we go from here?" This, then, is the picture as it now appears to be taking shape. For some time to come the industry probably will continue to be plagued by basic problems such as over-production and inadequate price levels. There will be periods, however, when consumer demand is strong enough to force such problems into the background to the extent that the companies will earn an adequate return on their investment in plant and equipment. At this time it might be well to point out that in very few industries does the shareholder obtain as much in earnings assets for each dollar he invests as in the textile industry. While it is impossible to say whether the upturn is upon us at the present time, it must be acknowledged that the stage has been set. The economy is turning upward, distributors' inventories are estimated to be at a minimum, textile prices are relatively low and the consumer has the cash on hand. Some textile mills are reporting more "spot" business, or orders for quick delivery, and in view of the unexpected shortage

at the retail level this type of order may be more prevalent in the near future. Pepperell announced that its backlog of orders was double that of a year ago. Newspaper reports indicate the arrival of buyers in New York City at a record rate in the early part of September.

With much of the cloth being delivered in the third quarter having been ordered at previous low prices, little or no improvement is anticipated for textile earnings in this period. The fourth quarter most likely will prove to be the crucial time and if the demand currently underway shows signs of being more than a "flash in the pan" the rising trend should carry over into early 1959.

For the textile stock group as a whole, share prices have risen somewhat from the lows of 1958 but are still well below the highs reached in 1955. Most of the bad news has already received its share of publicity and for the most part, present dividend rates should hold.

Some Company Developments

One of the better earnings records in the industry has been turned in by **J. P. Stevens,** due, in part, to its favorable diversificction. For instance, last year the company's sales of fibers were divided as follows: cotton, 45 per cent; synthetics, 34 per cent; and woolens, 21 per cent. Financial condition of the company is sound with net working capital equal to about $21 a share, while book value per share is just under $50. Stevens recently reported earnings for the nine months ended August 2, 1958 and the results attest to the company's recuperative power. For the third quarter of the current fiscal year per share results were 62 per cent ahead of those for the 1957 period. The shares appear to be an interesting businessman's risk.

Most of the companies in the rayon and acetate group experienced very sharp declines in earnings for the first half, reflecting poor conditions in the automotive tire market. Improvement is anticipated later this year and one of the major beneficiaries of a turn for the better would be **Beaunit Mills.** About 50 per cent of sales is accounted for by tire yarn and the balance is directed toward the apparel field. Production of a new, stronger tire yarn may help to stem the increasing use of nylon in this product. Existing plant facilities are being modified to produce a polyester fiber by mid-1959 which should contribute to longer-term growth of the company.

With a total plant capacity in all lines of some 600 million pounds annually, **American Viscose** is the country's largest rayon textile yarn and fiber producer and the second largest manufacturer of cellophane. Heavy dependence on textile operations has been largely responsible for the declining trend of earnings since 1955 but the company's equity in earnings of Chemstrand Corporation and Ketchikan Pulp Company, both 50 per cent owned associated companies, has been increasing substantially. Much of American Viscose's growth potential appears to be contained in Chemstrand, a producer of nylon and acrylic fiber and now one of the 200 largest corporations in the United States. Dividends should be maintained at the recently reduced 25c quarterly rate.

The accompanying tables present pertinent, up-to-date statistics and helpful individual comments to show the position and prospects for all the leading textile companies. END

Hoffa-Labor and the Election

(Continued from page 722)

fairs of organized labor."

Not all of the counts in that indictment are assailable. The bill would do many of the things Lewis professes to fear. It would do those things because the operations of the Mc Clellan Committee plus common knowledge in the business world, underscore the necessity of doing them if the Hoffa type of domination over the economic welfare of the country is to be successfully challenged.

How Hoffa Would Affect Our Economy

What is the Hoffa domination, even assuming he is not successful in creating a national highway - air - shipping monopoly? It extends over 10.3 million privately owned and 443,000 publicity owned trucks registered as of 1956, the last complete official figures. They would grind to a stop on Hoffa's order — those driven by teamster union members automatically, and all others as soon as the available supply of gasoline station tanks ran out. There would be no new stock delivered to the stations. That would mean the end of milk and other food deliveries to the home, and within a matter of days there would be no delivery from wholesaler to retailer. The "car pool" would stop; the school bus cold not run. Unless a streak of public concern not manifest today were to appear, the physician, the ambulance driver, would be sidelined. Those depending on bus or private car to convey them to desk, or factory bench would remain at home — no gasoline; street cars and railroads couldn't stand the load. Suburbia would wither. Business and industry would shut down, to reopen only on Hoffa's terms.

Executive authority might step in to declare a national emergency. A palliative, but at best temporizing. And this in a free, democratic country!

Politics and the Coming Election

That suggests part of the stake the Nation has in the election which is but weeks away. Yet labor legislation does not appear to be one of the major demands of the non-professional voters. Fewer than a score of states have right-to-work laws and there is strong likelihood that the issue will not do well in a majority of the six states which will ballot on it in November — California, Colorado, Idaho, Kansas, Ohio, Washington.

If the democratic landslide acplished in Maine is a preview of what is ahead, the number of new faces in the House of Representatives next year will be reminiscent of the session which followed the Roosevelt-Landon campaign. Any huge turnover in the House (it isn't possible in the Senate because only one-third of the seats are up for grabs) is fraught with danger. That has been history. Districts which have remained in one political column for many years discourage the best opposition candidates from coming forward. Result: Cranks, narrow-gauge thinkers, men and women with a solitary issue or a grudge, find themselves members of Congress when there is a large turnover.

They rely on a potent element: National apathy.

Reuther and His Campaign Chest

Walter Reuther can count among the Members of Congress, 175 whose elections he aided with union-raised funds and other help. Today he is operating in 300 of the 431 Congressional Districts, helping to elect his choices. His goal is to elect 220 Members who will vote labor union policies — a majority of the House of Representatives.

Reuther's program is no secret: confiscatory taxes, destruction of higher incomes, a deluge of socialistic measures.

Labor unions have annual income of $612 million and it is estimated that $100 million of organized labor's contributions will find their way into the campaign chests of candidates for Congress.

END

Investment Clinic

(Continued from page 747)

earnings growth have been sadly disappointed. And yet current buyers are willing to pay even fancier prices for the stock, in relation to earnings.

Certainly, in contrast, **Kennecott Copper,** despite poor business and a recent dividend cut is more sanely valued at 19 times estimated 1958 earnings. Of course, this valuation is high for a cyclical issue, but Kennecott at least yields over 4 per cent on its $4.00 annual dividend, and has behind it a long record of survival and mastery of difficult economic conditions. Despite the better yield however, investors would do well to bear in mind that Kennecott, too, has fluctuated widely in market favor. In 1929 the stock also sold at 19 times earnings—and in the overly optimistic year 1937 it again came close to that figure. But in 1953 the stock was deemed to be worth only 7.2 times earnings, and offered a dividend return of over 10 per cent.

What needs to be stated here is that in each period when these stocks sold at exceptionally high ratios, the rationale was that "this time things are different." Yet always a day of reckoning came, proving that things were not so different after all and that divorcement from value ultimately leads only to regret.

It is certainly difficult to envision the next five years as dynamic as the half decade since 1953. But **Standard Oil of New Jersey,** by far the outstanding company in its industry was purchasable at only 6.9 times earnings in that year, while today it commands a price 17 times its current earnings. This, despite a glut of products in the industry, tremendous overcapacity, the intrusion of natural gas into many of its markets and the ever-growing threat of other competing forms of power generation. Jersey may be worth its current valuation, but if so it was entitled to much more prestige five years ago.

Jersey, at least, has rewarded its stockholders with fairly constant earnings growth and adequate dividend coverage. **Union Carbide,** on the other hand—although it has remained in the vanguard of chemical companies —has failed to offer its stockholders this kind of security. In recent years the stock has never been purchasable at modest prices, even commanding 17 times earnings in 1953. Still, today, dividend coverage is barely enough to pay the $3.60 dividend —and in fact a smart recovery will be necessary in the last half of 1958 if payments are to be met this year. In spite of these difficulties, however, the market evaluation of Carbide's future is greater today than it was at its 1957 peak, even though experience has shown that the company has not reaped inordinate benefits from inflation. Carbide's earnings indicate a downtrend. How long will investor's wait for the "future" to manifest itself?

In the past, **U. S. Steel** was viewed as the bellwether of the market for many years. Recently, the stock has reached a new 1957-58 high. It is currently selling at about 15 times this year's estimated earnings, compared with only 10 times 1957 profits at last year's peak. It could have been bought as low as 4.4 times earnings in 1953. However, at the 1937 high, the ratio was 16 times or close to that prevailing today. It is true that conditions have changed in recent years and that wider uses for steel have been found, with the industry thus achieving a measure of stability that contrasts with its former highly cyclical status. Consequently, increased interest in the leading steel issues has been aroused among important investment sources. However, this was also true, at least to a considerable extent, as recently as 1953, when U. S. Steel sold at a much lower price-earnings ratio than today. The current yield of the stock is 3.8%, in contrast with 8.9% at the 1953 low. Thus, while later events have proved that the stock was under-valued in 1953, it remains for the future to determine to what extent, if any, it may be over-valued at this time. The decision will depend, in greater part, on the degree of recovery in business, particularly industrial activity.

END

Can Paper Companies Break Earnings Log - Jam?

(Continued from page 741)

ments in new capacity have been greatly curtailed, and, as a result, the proportion of profits retained to finance expansion is smaller.

Better Times Ahead?

As general business has improved in recent months, the best gains have been shown by paperboard and the coarse grades of paper used in packaging and in multi-wall bags. But if the business recovery proceeds, printing paper usage should not lag far behind the recovery in packaging paper and board, for advertising outlays by major corporations will improve, necessitating publication of larger issues of newspapers and magazines. Already, in some areas, a slight upturn in newsprint lineage has been noted, as advertising linage increases with heavier department store and national advertising.

If the automobile industry finds that its new 1959 models enjoy a good reception, it will spend more heavily on newspaper, magazine and advertising linage than it has in recent months. On the other hand, if the sale of new cars is disappointing, such advertising will be curtailed in line with the prospective market. This approach will also be used by department stores and other advertisers, and

it will have a material effect on sales of printing paper and on prospects for a price boost on certain paper grades.

In the first half of this year, newspaper advertising by the auto industry declined 20 percent compared with the same period of last year. A sharp reversal in advertising policies will be required to reverse this trend. The capacity of newsprint producers is in excess of anticipated needs, unless a vigorous revival in advertising occurs.

Investment Status

The ending of the profit squeeze through price rises would improve the investment ranking of paper company stocks. Cost absorption has continued almost without interruption in recent years, and has been reflected in a slow almost unnoticed decline in the net profit expressed as a percentage of sales. As long as volume continued to rise, the effects of this profit squeeze were obscured. The industry in the first half of this year worked hard to cut overhead and operating costs and thus offset part of this profit squeeze. With any improvement in business activity, price rises would permit a better price structure and would ease the profit squeeze.

But labor unions in the paper industry, which obtained boosts of 2 to 3 percent this year, would doubtless seek larger gains with any improvement in paper volume.

Keen competition of course, is a factor in the profit squeeze, and this factor is not going to be eliminated, suddenly. The major, well-diversified paper companies are expanding in all sections of the country, and are seeking to maintain their share of the market. For example, eastern producers, such as St. Regis, have entered the West Coast market, and West Coast companies, like Crown Zellerbach have been moving into the Middle West and the East.

The growth in paper capacity will have to continue during the 1960s, for once paper output catches up with the demand, the paper companies will begin to think about a new round of expansion. There is every indication that in spite of competition of plastics and other packaging materials, that use of higher paper packaging materials will continue to grow. This is an encouraging factor which has tended to create a demand for securities of paper companies during the first half of this year, on a rather high ratio of price to earnings. Over the long term, however, the paper industry will have to demonstrate that competition will not get out of hand, and will permit new investments to pay a fair return.

Some Stability Achieved

The industry has shown good stability in earnings and in volume, compared with the violent fluctuations in earnings which used to be characteristic of it. It cannot be said, however, that it has as yet shown as much consciousness over the effects of adequate prices on earnings, as have the steel and rubber industries. For in steel, prices were boosted fairly promptly in August to offset a rise in labor costs, while the rubber industry moved quickly to correct a profit squeeze when its labor costs rose this Summer.

Offsetting this poorer performance in the price area, paper has done better than steel and rubber in respect to ability to maintain volume in the face of a recession. Overall production of paper and paperboard in the first six months of this year was down only 3.6 percent from the level of 1957. This included a dip of 4.1 percent in paper output and of 3.7 percent in paperboard. Newsprint output was down 8.7 percent, machine coated paper was 2 percent above the first half of last year, and uncoated book and groundwood paper output were down slightly. Fine papers showed a slight increase for the first six months of this year, while coarse papers were down approximately 7 percent.

These figures show that the paper industry as a whole has been following activity in the non-durable sector of the economy, rather than in the durable goods sector which was down 50 per cent and more, in many cases.

Indications For Year 1958

It is now expected that the anticipated seasonal Fall upturn in production will bring total paper and board output to slightly over 30 million tons, or slightly less than last year's output of 30.7 million tons.

The American Paper & Pulp Association's survey of sales and profits for the first half of 1958 shows that 91 companies, which accounted for nearly 50 percent of the paper industry's volume, reported a drop of 2.5 percent in sales from the corresponding period of 1957. Net profits, expressed as a percentage of sales, were 5.8 percent in the first half of 1958, as against 7 percent in the initial six months of last year. Return on net worth dropped from 4.9 percent in the first half of 1957 to 3.8 per cent in the first half of 1958, or from 9.8 to 7.6 per cent on an annual basis.

It is now estimated that sales in 1958 for the industry will come close to 1957's total of -10.4 billion, if the Fall upturn comes through on schedule, but that net profits for this year will be down 20 per cent, due to the cost-price squeeze.

How much of a threat new materials will present to the paper industry remains to be seen. The paper companies are working hard in their research laboratories on combinations of paper with films, foils and plastic materials. If these efforts succeed, the rate of growth of the paper industry should not be slowed down measurably by aluminum, plastics and other packaging materials. But the competition with new materials may well have an effect on prices of paper or combination paper-and-plastic products.

Projections of Future

Forecasts of future paper requirements have varied slightly. The Stanford Research Institute estimated that U.S. production might rise to 32 million tons of paper and board by 1960, to 37 million tons by 1965 and to 47 million tons by 1975. This forecast was recently revised upward for 1965 to 45 million tons, an increase of 8 million tons. It was almost in line with a Department of Agriculture forecast of 44 million tons by 1965. Both of these these forecasts call for a higher annual rate of increase than the 4.5 percent actually enjoyed between 1947 and 1956.

But conditions are such as to make long range forecasts guesswork more or less. For the near term it appears that profit margins will not recover quickly to the peak levels of 1956, because the big expansion programs of recent years have for a period at least, brought more capacity into being than the rate of growth has warranted. END

Forecasting Our Trade Prospects With Europe And Latin America

(Continued from page 735)

continue. Exporters here now have good reason to be gloomy about sales prospects from Brazil since the cruzeiro will continue its downward plunge. The end is not yet in sight and the cruzeiro could easily drop to 200 cruzeiros to the $ before long. Brazil will have to obtain another balance of payments loan from Washington. At the same time, Brazil will push financing arrangements for imports from Denmark, Norway and Sweden.

Colombia's ability to earn dollars also will be strongly affected by the world glut in coffee inventories. Bogota will have to keep Colombian imports from the U. S. well under the $25-million monthly level as promised to the Export-Import Bank, World Bank and leading trade associations in New York. Colombia is determined to place its "economic house in order" and has attracted top quality personnel to the Administration. These new officials are performing excellent work in the settlement of Colombia's backlog of external debts. A recent proposal in Colombia to issue tax-free dollar bonds also is a step in the right direction. These notes could be used to repatriate about $300 million in capital that has left the country. Funds thus obtained could be utilized in the program to set up industries producing items now imported entirely from abroad.

Argentina will experience considerable difficulties in selling her wool, beef and grains. Peso will reach 50 to the dollar before end of this year and will not show signs of permanent recovery for quite some time. There will be no reason to change U. S. export policy of selling to Argentine businessmen primarily on a letter of credit basis. Although Argentina is in desperate need to replace badly antequated production facilities, she will not be able to earn a sufficient amount of foreign exchange to do more than a piecemeal job. It is estimated that Argentina needs roughly $1.8 billion in equipment for this immense and pressing task.

Impact of Soviet Dumping Program

Khrushchev's announced policy of "economic war" could vitally affect Boliva, Chile, Peru, Brazil, Mexico, Venezuela and Cuba. This trade offensive will be aimed at weakening the Latin American countries and thus forcing them to turn towards Russia, by disrupting their traditional markets. By dumping of copper, lead, zinc, sulphur, manganese, mercury, iron, chromium, nickel and other items, in established markets, Russsia can undercut the export position of the Latin American producers.

As mentioned earlier, Russia already has tested this technique in aluminum, platinum and tin. For instance, in the case of tin, Soviet dumping methods worked so well in depressing quotations that Bolivia was almost completely cut off from her normal markets for the metal. Then, with her exchange reserves depleted, and in drastic need of machinery and pipe line equipment to complete her oil refinery and exploration facilities, Bolivia succumbed to Russian barter offers of the required equipment in exchange for tin scrap. Russia ended up with more tin than she started plus a foot-hold in the Bolivian economy. Earlier in this article we described Russia's successful attempts to disrupt aluminum markets which have driven American and foreign producers to an anxious search for counter-measures. In the case of platinum, Russian market manipulation drove down the price and seriously injured the limited economy of Colombia.

The Soviet Union's resounding success thus far in disrupting Free World metal markets, has encouraged her to embark on a much wider dumping program. Russia is now prepared to operate in a long list of world metals and minerals in order to upset the delicate balance between supply and demand that exists for many sensitive commodities. Such operations only require the ability to unload marginal supplies of a given commodity, which can seriously affect the entire market. If successful, The Soviet Union can so weaken many smaller countries that they will be ripe picking for Russian economic penetration.

Indications are growing that copper will be next in the Soviet time-table. The Soviet Union has been increasing the production rate and capacity of her own copper mines in recent months and she also has been a heavy buyer of the metal from the extensive resources of her satellites. Moreover, Russia has a sufficient amount of copper available to maintain this trade offensive over the long-term. Experts estimate that Russian copper mines in the Urals contain 185 million tons of extremely high-grade copper, which compares with her estimated consumption of some 700,000 tons a year and fuller development of these mines is being pushed

Large-scale exports of Russian copper would pose a serious threat to the Chilean economy, whose foreign exchange earnings could drop drastically. In fact, if the Russian program meets with even limited success it could imperil private enterprise in Chile and might finally force her to turn to Russia for needed imports and long-term credits. Failure of the recent United Nations' sponsored conference of 40 copper trading nations to adopt a stabilization program will facilitate Russia's designs against the copper producing countries.

Peru will be imperilled not only by a drive aginst copper, but by similar action to be expected in lead and zinc. Mexico could have to contend with losses from such principal dollar earners as sulphur, mercury and manganese as well as copper, lead and zinc. Brazil can expect the Soviet Union to unload manganese in the foreseeable future. Cuba can be injured by dumping in the nickel field although in her case the results would not seriously endanger her foreign exchange standing. Venezuela is vulnerable to competition in iron and asbestos which also appear to be on the Russian agenda.

U. S. Counter Measures

Russia's economic drive could imperil many of our close allies and thus the entire free world is vitally interested in Washington's ability to counter the Russian offensive. Eisenhower's offer of financial assistance to the Middle East via "soft currency" loans points the way towards one method of helping the Latin Republics. Administration leaders have finally learned that we cannot give aid to the more remote areas of the world, without cooperating in that country's economic development. As a result, major proposals that were under consideration prior to Vice President Nixon's stormy trip to Latin America six months ago, now have a much better chance of coming to fruition.

An interesting aspect of Russia's program that is well for us to consider is the fact that the Soviet Union, as in the case of Bolivia, does not seem to mind the repercussions which caused even the strong communist faction in that country to protest the tin dumping. Russia seems to ignore political aspects and to concentrate on economic chaos, with which she hopes to gain her ends. We should take the opportunity to capitalize on the discord created by Russia to solidify our position in Latin America and turn the ill will created against her to our advantage. —END

Dilution of Investment Risk Through Companies with Major Outside Interests

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(Continued from page 729)

last few years there have been many unwise acquisitions, as proved by subsequent events, forcing disposals and spin-offs.

Leaders Among Corporate Investors

We wish now to discuss some of the more interesting companies with large investments in other enterprises. It will be noted that we have not included du Pont . . . the leader in this respect. The reason is that in our issue of June 21, 1958 we covered in detail the fantastic problems involved in liquidating DuPont's investment, or the major part of it, in General Motors. Rather we have chosen certain other companies with investments that are, or may be, in due course, of great significance to their shareholders.

Owens-Illinois has long been the competitive leader in the glass container industry. The stock of this company is a favorite of trust companies, investment companies and comparable institutions.

Its principal outside investment is its holding of 32% of Owens-Corning Fiberglass. This latter company was organized some years ago by Owens in conjunction with Corning Glass Works to establish a company to produce glass wool and fiber. Glass fiber is used chiefly as an insulating material. Except for the fact that glass is its raw material, glass wool products are far removed from the bottle business.

The investment has been brilliantly successful. Because of it, Owens-Illinois has gained a whole new dimension and a new source of financial strength. This was clearly shown in the company's recent acquisition of National Container. To help finance this deal Owens-Illinois issued about 823,000 shares of 4% convertible preferred having a current market value of over $81,000,000. One of the principle investment attractions of this preferred is that it is convertible into 1.05 shares of Owens-Corning Fiberglas common (not Owens-Illinois common). If fully converted into common, it will in effect mean that Owens-Illinois will have sold about 40% of its holdings in Owens-Corning Fiberglas for over $80,000,000, but will still have approximately 20% of the latter company.

Owens-Illinois' holdings of Continental Can are worth comment. These shares were received in exchange for its holdings in Hazel-Atlas when the latter merged with Continental. Since Continental is a major competitor of Owens-Illinois in many fields, Owens-Illinois has indicated it expects to sell the shares. They are currently worth about $21 million.

Allied Chemical, a leading producer of basic chemicals, has an investment portfolio that is an important factor in its annual earnings and its market status. There is only one chemical stock in its investments, this being the preferred stock of Virginia-Carolina.

The real plum is represented by its holdings of Owens-Illinois common, which account for almost one-third the value of its portfolio. The total portfolio cost approximately $15.4 million, and is now worth about $100 million, a rather good score, Not the least interesting holding of Allied Chemical is 100,000 shares of U. S. Steel, although this is not a major factor in Allied's total income and equity value.

McIntyre Porcupine, originally an established Canadian gold producer, has made an almost complete changeover in recent years, to become a leading Canadian investment concern. However, even in making this change it has confined most of its investments to minerals, and has not tried to diversify into other fields to any very large degree. In making this statement it is well to observe that both the oil and steel industries, in which the company has large investments, are in the strict sense of the word mineral industries.

Income from its investments now accounts for about three fourths of its pretax income, and its own gold mining operations the balance. In all probability this income from investments will be an even larger portion of total income in the future. The company's largest new investments include $12 million in Ventures Ltd. and $14 million in Algoma Steel Ltd.

Viewed in retrospect, McIntyre's record has been very good indeed although the Canadian gold mining industry has been in the doldrums for some years as the result of rising costs and the fixed price of gold. Reflecting this, the company's operating income from gold is now only about a third of what it was in the mid-1930's. However, by broadening its mineral interests and investing its assets in other ventures, McIntyre's total income, prospects and equity value have shown a very reassuring trend.

Gulf Oil . . . Texas Co. . . . Other Major Companies

There is one aspect of domestic oil company investments which has become almost an industry characteristic. Generally speaking, the largest investments being made are in foreign oil compan-

ies, particularly those in the Middle East and South America. These investments tend to be very sizeable in amount. Unfortunately, it is not always possible to obtain either income breakdowns or share quotations showing the market value of these foreign holdings.

Texas Company for example had investments in non-consolidated subsidiaries totaling over $180 million at the end of 1957. Included were a 30% interest in Arabian American Oil, 50% in Caltex, 50% in Caltex Pacific, 75% in Regent Oil, and 65% in McColl-Frotenac. Gulf Oil also has large holdings in the Middle East, including Kuwait, only part of which can be calculated and shown in the accompanying table.

It is known for example that about 30% of Texas Company's earnings are derived from the Middle East, while upwards of 40% of Gulf Oil's earnings come from that region (including Kuwait). No way exists to completely show this on a per share basis.

Consequently, allowance for this fact must be made in using the tables. For all practical purposes, the major domestic oil producing (not refining) companies are becoming international companies.

Turning finally to the table showing companies which confine their investments to closely related fields, it will be noted that each shoemaker sticks to his last. Copper companies for example invest in other copper companies, railroads in other railroads, oil companies in other oil companies. The principal exception shown in the table appears to be Panhandle Easterns' investment in National Distillers. Actually the two enterprises are closely related. Panhandle's interest in National Distillers was received for its 40% interest in National Petro-Chemicals in late 1957. National Petro-Chemicals is a wholly owned subsidiary of National Distillers which produces chemicals from natural gas furnished by Panhandle Eastern.

It would be unwise to conclude an article on the subject of corporation's with large investments without mentioning, at least for the record, the Hanna (M. A.) Company of Cleveland, whose common stock has never been listed.

Itself a major shipper of iron ore and coal on the Great Lakes, as well as a very substantial producer of iron ore, Hanna also is shipping agent and co-manager of Iron Ore of Canada, and in 1957 opened a nickel smelter in Oregon. But its investment portfolio is of particular interest.

The company owns 27% of National Steel, which it helped found with the late E. T. Weir, and 20% of Industrial Rayon. Other major investments include Standard Oil of New Jersey, Texas Company, Algoma Steel, and Phelps Dodge. The total market value of its listed securities is now in the neighborhood of $275 million, and equals about $90 a share on the Company's Class A & B common which is now quoted at 135-142. In 1957, dividend income from its holdings equaled $5.74 a share as against total net income of $6.91. Not the least interesting thing about Hanna is the fact that the present Board Chairman of National Steel is George Humphrey Sr., who prior to his serving as Secretary of The Treasury, was Chairman of the Board of Hanna.

In summary, analysis of the investment policies of the leading enterprises covered in this article indicates that in the great majority of cases, management has been successful in wisely investing large sums with good results, as attested by the sizeable appreciation in value of many of these portfolios. END

Trend of Events

(Continued from page 716)

opoly — A Clear and Present Danger," published last year, Donald R. Richberg observed:

"The exigencies of World War 1 had involved the railway unions and the federal government in an intimate relationship which, during and immediately following the war, the unions had learned could be extremely beneficial to them. When, however, the depression of 1921 brought governmental action that was detrimental to the unions, they learned that the federal power especially when a great public interest was involved, was a two-edged sword that could be turned either against labor's enemies or against labor itself. An attempt by labor to control the use of the sword was implied. Though it was hardly realized at the time, the decision of the railway unions to attempt modification of the federal transportation law was a step toward labor control of governmental power."

The Smathers Committee investigation this year was followed by some measure of relief. Not nearly enough. An Interstate Commerce Commission examiner, completing a year-long investigation, reported to his chiefs several days ago that railroad passenger service, other than commutation, will cease to exist by 1970 if the present rate of decline continues. Sleeping car service can't last after 1965 at the present rate. Announcement that sleepers between New York City and Washington, D. C. are to be taken off, supports the forecast of Examiner Howard Hosmer.

Wht is causing the decline? Mostly the turn to travel by private automobile, which now accounts for 90 per cent of all intercity travel. The result is that public carriers handle about 10 per cent of the total traffic, of which railroads account for less than one-third. Not since 1890 have the Class 1 railroads had as few passengers as they carried in 1957 — 411 million. The first five months of this year showed a 7 per cent drop under the corresponding months of last year. Between 1947 and 1957 passenger revenue per gross mile went up 22 per cent and operating costs

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Government subsidy of air transportation is accepted as national policy. It will increase rather than level off, or drop. Highways available to trucks are spanning the continent — built and maintained by the taxpayers. Railroads meanwhile are defenseless against local tax assessors who, the ICC examiner comments "seemingly are bent on killing the goose that lays the golden egg."

Railroad executives militantly insist they aren't trying to discourage passenger traffic. They want it to pay its way. And in the economic discussions the tremendous national defense potential of a strong railroad system must not be overlooked.

Congress and the regulatory bodies — federal and state — must place the railroads in proper perspective and in just relationship to the public requirements for good service, as well as the essentiality of the systems for peacetime uses as well as national defense — and then realistically compute the bill.

The railroad system in present or modified form is here to stay. The query is whether it will be a part of private enterprise or a government operation. The hour of decision is close at hand, and inescapable. END

As I See It!

(Continued from page 717)

Southern Minerals have given it qualified approval.

The plan seems to have one advantage over its predecessor. It relieves the government of having to decide who is and who is not to get oil import licenses. From now on an automatic formula will take care of this decision and will also determine the amount to be allocated to each importer.

Yet, it can not be said that this formula makes the new import program a more equitable procedure than the old one. On the contrary. Refiners located on the East coast who have traditionally relied on foreign oil for a large share (up to 55%) of their total oil needs will now get the same share of imported oil as refiners in the Midwest who have never used a drop of foreign oil in their plants. For the latter, the program promises to be a windfall, since they will be able to sell the imported oil at a profit to those who need more of it than their allocated quota. The result may well be an increase in the cost of foreign oil.

Political vs Fair Decision

Even more unfair is the fact that those oil companies who have risked hundreds of millions of dollars to locate new oil deposits abroad will now find that they are hardly in a better position than their competitors who have never invested a penny abroad. For the new plan sets, of course, no differential between oil companies that have foreign producing facilities and those that do not. Thus, risk, enterprise and initiative is being ignored in the name of a "democratic" formula for the entire oil business community.

Perhaps, the government could not have come up with a more workable formula under the circumstances and in view of the political pressures to which it is subjected. It would also be unreasonable to suggest at this time that the government get out of the oil import business. Once the initial step was taken everything else followed as a natural sequence. But perhaps the experience of this industry might make other businessmen think twice before they call for government intervention every time things don't go their way.

Investors should carefully watch the shift and change in the making in the Oil Industry. END

For Profit and Income

(Continued from page 749)

the lily is accepted practice in advertising. In this case, the lily was indeed gilded. In the seven years through 1955, the total gain in the company's per-share earnings was about 37%, compared with 52% for earnings applicable to the Dow industrial average. They were unchanged in the boom year 1956 at $4.86 a share, receded to $4.45 last year and might be $3.70 to $3.90 this year. If the past growth rate is any guide, it might take several years for profit to better the prior peak of $4.86 a share. The stock is now selling at about 23 times the latter figure, and in the vicinity of 30 times likely earnings for 1958. It's a good stock of a fine company — but no bargain.

Eastern Rails

The following basic factors are generally less favorable or more unfavorable to Eastern railroads than to those in the South and West: (1) regional traffic growth; (2) impact of truck competition; (3) losses on passenger business. In the business recession they have additionally been hurt more than most roads in other sections by severe contraction in output of automobiles, coal and steel. The basic factors, of course, are unchanged (except that losses on passenger services are being reduced); but cyclical recovery possibilities are broad. We continue to think that B. & O. is a sound recovery speculation; that, for those willing to venture a more radical speculation, Erie could pay off over a period of time; and that those who are hung up in New York Central. New Haven and Pennsy probably will get a better market, somewhere along the line, in which to get out. END

Book Review

The Time of the Dragons

By ALICE EKERT-ROTHOLZ

This absorbing novel of a group of Europeans in the Far East, spanning the past thirty years, carries the reader along at a breathless pace through adventure, intrigue, terror, and deep emotion. It follows the careers of a Norwegian diplomat and his three daughters, each by a mother of different nationality, and of the Orientals, French, White Russians, and Americans with whom their lives become enmeshed. Each daughter in turn is involved in a love affair that responds to the mounting tensions of the times. Plots and counterplots abound; spies and suspected spies are on every hand; bombs fall—but life goes on. As the Japanese make their relentless way, and as the tide swings back to engulf them, we witness through the story of the three girls the passing of an old order and the unfolding of a new.

In presenting this cosmopolitan galaxy of fascinating individuals, the author has done a high-level service to the cause of fiction. Already a great success in several European countries, this novel in its lively American translation should reach a large new audience.

Viking $4.95

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The recession has bottomed out! Glad tidings of a pick-up in numerous companies is being welcomed. Yet, drab news of continuing slack — even further earnings decline is still appearing elsewhere.

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You will want to buy and hold companies financially strong with the managerial ability to secure a full share of defense orders, public works contracts, huge consumer spending. Their earnings-dividend outlook may also be brightened as beneficiaries of amazing new scientific achievements and technological achievements.

With business and security prices in the throes of adjustment to new conditions, you have much to gain from Investment Management Service—which has successfully aided investors in markets of every type to protect and build their capital and income . . . looking to future financial independence.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1958 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. *It is never necessary for you to consult us.*

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

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We keep in mind the tax consequences of each transaction and help you to minimize your tax liability under the new tax provisions. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

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Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

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